**2020 Results Press Release**
**Friday, 12 March 2021**
**Circulation: RNS formatted**

Bodycote

www.bodycote.com

**Bodycote plc**
**Full year results for the year ended 31 December 2020**

| **Financial summary** | **2020** | 2019 | ***% change*** | ***% change at constant currency*** |
|---|---|---|---|---|
| Revenue | **£598.0m** | £719.7m | *-16.9%* | *-16.6%* |
| Headline operating profit[1] | **£75.3m** | £134.9m | *-44%* | *-44%* |
| Headline EBITDA margin[1] | **26.4%** | 29.2% | | |
| Headline operating margin[1] | **12.6%** | 18.7% | | |
| Exceptional items[3] | **£(58.4)m** | – | | |
| Free cash flow[1] | **£106.1m** | £123.1m | *-14%* | |
| Basic headline earnings per share[1,2] | **27.8p** | 52.1p | *-47%* | |
| Ordinary dividend per share | **19.4p** | 19.3p | | |
| Return on capital employed[1] | **9.8%** | 17.7% | | |

**Additional statutory measures**

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

## Business transformed, resilience proven, structured for growth

- The health and wellbeing of our people remains our top priority
- Financial performance
  - Organic revenues declined 20%
  - Resilient headline EBITDA margin at 26.4% (2019: 29.2%)
  - Excellent free cash flow conversion[1] of 141% (2019: 91%)
  - Closing net debt of £23m after paying £96m of the consideration for Ellison
  - £36m of cash restructuring costs, generating £30m of annual savings by 2022
- Continued programme of strategic investment
- Structured to align with long-term megatrends in road transport electrification, point-to-point air travel, and the reducing use of fossil fuels
- Uninterrupted 30+ year track record of growing or maintaining dividend

1 The headline performance measures represent the statutory results excluding certain non-operational items. These are deemed alternative performance measures under the European Securities and Markets Authority guidelines. Please refer to note 1 of the 2020 full-year results press release for a reconciliation to the IFRS equivalent.

2 A detailed EPS reconciliation is provided in note 8.

3 Detail of exceptional items is provided in note 5.

**Commenting, Stephen Harris, Group Chief Executive, said:**

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

This year has been hugely challenging for our people. Not only have they been confronted with the impact on their personal lives from the COVID-19 pandemic and all its consequences, but they have also had to deal with significant changes in the working environment and organisation. I am immensely proud of the fortitude and resilience shown by our employees as they continued to deliver first-class service to our customers under the most trying of conditions.

As the COVID-19 pandemic hit, the need to safeguard the wellbeing of our employees drove an immediate, large scale mobilisation of resources across the Group. I am very pleased to see how effective the measures we have taken have been and I want to acknowledge the remarkable performance of the global and many local management teams involved in this unprecedented effort.

As part of our strategy, we have focused in recent years on repositioning the Group to take advantage of a number of megatrends in our end markets. Our expansion in Eastern Europe is targeted at supporting the Electric Vehicle supply chains that are establishing themselves in this Region. The change in focus of our civil aerospace business addresses the structural shift within the industry towards point-to-point air travel and narrow body aircraft. Additionally, the repurposing of some of our North American facilities aligns our business with the diminishing importance of fossil fuels. The restructuring programme we have been executing in 2020 represents an acceleration of our strategy and is exactly aligned with these secular trends.

The Board is proposing a final dividend of 13.4p, which brings the total ordinary dividend for 2020 to 19.4p. This continues Bodycote's uninterrupted 30+ year track record of growing or maintaining the dividend and reflects the Board's confidence in the Group's future earnings and cash flow potential.

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

## Full Year Results Presentation

Due to current travel restrictions, we will be presenting our results via webcast only. Please find the following instructions to connect to the video and audio:

8.30am UK on 12 March 2021

Webcast URL:
**https://www.bodycote.com/webcast2020**

Participant dial-in number from the United Kingdom **020 3936 2999**
(all other locations + 44 20 3936 2999).
Participant Access Code: **980859**

*Bodycote plc*
Stephen Harris, Group Chief Executive
Dominique Yates, Chief Financial Officer
Tel No +44 (0)1625 505 300

*FTI Consulting*
Richard Mountain
Susanne Yule
Tel No +44 (0)203 727 1340

## Full Year commentary

### Results overview

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

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

Headline operating profit decreased to £75.3m (2019: £134.9m), while, after taking account of the exceptional charge of £58.4m, the statutory result was an operating profit of £5.0m. The Group delivered strong free cash flow of £106.1m (2019: £123.1m) and ended the year with net debt (excluding lease liabilities) of £23m after paying £96m in connection with the Ellison acquisition.

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

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

## Revenues and margins

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

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

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

In AGI, automotive revenues dropped by more than 50% in Q2 as OEMs closed their facilities; they recovered significantly in the second half as facilities came back on stream. Coupled with sequential quarterly improvement in the general industrial business in H2, it meant that, by the end of the year, our AGI business in the developed markets was experiencing only single digit revenue declines versus the final quarter in 2019. Given the scale of action taken to address our cost base, we succeeded in offsetting the impact from the short-term operating leverage and, by the end of the year, were able to post higher margins in most parts of this business compared with the previous year. AGI revenues in the Emerging Markets fared even better with Q4 revenues achieving growth of over 16%. In total, our second half headline operating margin for the AGI business as a whole was flat on 2019, at 15.0%, almost double that of the first half margin of 8.4% and despite the H2 decline in revenues of 11.5%.

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

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

## Market sectors

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

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

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

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

## Specialist Technologies

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

## Emerging Markets

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

## Cost reductions and restructuring

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

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

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

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

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

- The consolidation of North American legacy facilities serving the automotive, general industrial, oil and gas markets.
  - This part of the programme includes seven plant closures and the construction of two new facilities. Both of the new plants opened in the first quarter of 2021.

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

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

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

## Strategic progress

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

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

- A much better alignment of capacity to serve the electrification of road transport.
- A shift of capacity toward the more fuel efficient and longer range narrow body aircraft and away from high passenger capacity wide body aircraft. Narrow body aircraft are

anticipated to grow at a rate that is significantly above the growth trend in revenue passenger kilometres as point-to-point travel becomes more efficient and flexible. High passenger capacity has historically been used for hub-to-hub transport with passengers transiting to short haul single aisle aircraft at the hub. This logistics model has been under threat for some time, putting downward pressure on demand for wide body aircraft.
- Downsizing our capacity serving the fossil fuel sectors.

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

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

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

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

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

## Summary and outlook

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

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

## Business review

Bodycote has more than 165 facilities around the world which are organised into two customer-focused businesses: the ADE business and the AGI business.

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

### The ADE Business

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

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

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

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

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

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

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

### The AGI Business

Our extensive network of more than 100 AGI facilities enables the business to offer the broadest range of capability and security of supply. Bodycote has a long and successful history of servicing its wide-ranging customer base.

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

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

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

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

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

## Financial Overview

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

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

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

### Finance charge

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

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

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

**Profit before Taxation**

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

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

**Tax**

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

Provisions of £22.1m are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Reference is made in note 6 to the financial statements for more information.

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

As reported last year in April 2019, the European Commission published their decision that certain tax exemptions offered by the UK authorities constituted State Aid and, as such, will need to be recovered. The UK government subsequently appealed against this decision. In the meantime, the UK tax authorities have indicated that they will be raising assessments on affected UK companies in line with the current judgement. To date, Bodycote has not been assessed and there is no provision against this contingent liability.

**Earnings per Share**

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

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

**Return on Capital Employed**

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

**Cash Flow**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Post IFRS 16** | **Pre IFRS 16** | Post IFRS 16 £m | Pre IFRS 16 £m |
| **Headline operating profit** | **75.3** | **72.5** | 134.9 | 132.6 |
| Depreciation and amortisation | **82.0** | **67.2** | 79.6 | 65.1 |
| Impairment of PPE | **0.4** | **0.4** | – | – |
| Income from associates | **(0.2)** | **(0.2)** | (0.2) | (0.2) |
| Loss/(profit) on disposal of PPE | **0.6** | **0.7** | (4.4) | (4.4) |
| **Headline EBITDA**[1] | **158.1** | **140.6** | 209.9 | 193.1 |
| Net maintenance capital expenditure | **(45.1)** | **(38.7)** | (50.2) | (39.1) |
| Net working capital movement | **17.2** | **17.2** | (4.2) | (4.2) |
| **Headline operating cash flow** | **130.2** | **119.1** | 155.5 | 149.8 |
| Restructuring | **(11.6)** | **(11.6)** | (3.2) | (3.2) |
| Financing costs | **(4.7)** | **(2.5)** | (4.5) | (2.1) |
| Tax | **(7.8)** | **(7.8)** | (24.7) | (24.7) |
| **Free cash flow** | **106.1** | **97.2** | 123.1 | 119.8 |
| Expansionary capital expenditure | **(20.0)** | **(19.5)** | (32.2) | (32.2) |
| Ordinary dividend | **(25.1)** | **(25.1)** | (36.8) | (36.8) |

| | | | | |
|---|---|---|---|---|
| Acquisition spend | **(99.3)** | **(96.0)** | (29.0) | (22.9) |
| Special dividend | **–** | **–** | (38.1) | (38.1) |
| Own shares purchased less SBP and others | **(0.1)** | **(0.1)** | (4.9) | (4.9) |
| **Reduction in net cash** | **(38.4)** | **(43.5)** | (17.9) | (15.1) |
| Opening net (debt)/cash | **(58.5)** | **20.9** | (44.1) | 36.2 |
| Foreign exchange movements | **(1.2)** | **0.1** | 3.5 | (0.2) |
| **Closing net (debt)/cash** | **(98.1)** | **(22.5)** | (58.5) | 20.9 |

[1] Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of property, plant and equipment, profit or loss on disposal of property, plant and equipment, income from associate.

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

**Expansionary capital expenditure and acquisitions**

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

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

In April, the Group completed the acquisition of Ellison Surface Technologies for $200m (£154m). Within this, deferred consideration of $79.0m (£57.8m, based on the exchange rate at 31 December) will be paid in the first half of 2021. More details on this are provided in note 10 of this 2020 Full Year Result press release.

**Exceptional items**

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

**Dividend and Dividend Policy**

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

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

**Borrowing facilities**

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

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

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

**Alternative performance measures**

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow, headline operating cash conversion, free cash flow and return on capital employed together with current measures restated at constant currency. These assist users of the financial statements to gain a clearer understanding of the underlying performance of the business, allowing the impact of restructuring and reorganisation activities, and acquisition costs to be identified separately. These alternative performance measures can be found in note 1 of this 2020 Full Year Results press release.

## 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 Financial Overview included above includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

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

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

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

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

On 27 May 2020, the Group negotiated a new £251m Revolving Credit Facility for five years to May 2025. At 31 December 2020, the Group's Revolving Credit Facility had drawings of £51.7m (2019: £nil) and the Group's net debt was £22.5m (2019: net cash of £20.9m). The liquidity headroom was £221.7m at 31 December 2020 excluding uncommitted facilities.

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

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

## Principal risks and uncertainties

The Board is responsible for the Group's risk management and determining the Group's risk appetite. The Group's risk framework, which has continued to operate as normal throughout the COVID-19 pandemic, employing a variety of top-down and bottom-up approaches is used to identify, monitor and report risks. A comprehensive review of the Group's business critical and emerging risks is presented to the Board in June and in December. The Board concluded that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2020 and a robust assessment of the principal risks had been undertaken.

### Changes during the year

The risks to the business have been reviewed throughout the year, and the Board has determined that there are three new principal risks to the Group, these are all in the operations risk area: contract review, machine downtime and loss of key accreditations.

Customer parts need to be treated in accordance with customer contracts. Parts that are not treated according to the confirmed specifications can lead to customer claims and reputational damage. Ensuring that all specifications' changes are properly recorded and formally agreed with the customer is, therefore, extremely important.

In order to provide heat treatment and thermal processing services on parts for certain customers Bodycote is required to maintain specific accreditations. 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.

Bodycote relies upon its operational equipment, across the network of plants, being available to meet the requirements of its customers. Significant periods of equipment downtime, for example, as a result of breakdowns would impact customer service.

The Board has also determined that two risks previously reported as principal should no longer be reported as such: capital projects and loss of key customers. The capital project risk has been reduced by improvements in the control environment, for example, improvements in project management and the monitoring of costs. The loss of key customers risk has been reduced as no single customer loss would be material to the Group, it would require the loss of multiple customers to become a significant risk. The loss of multiple customers would more likely be the consequence of market downturn, poor quality, or customer service failures; all of which are principal risks in their own right.

**Emerging risks**

The Board has highlighted the wider effects of climate change on Bodycote's business as a key emerging risk. The acceleration in the transition to electric vehicles (EV) that tend to have fewer components that require heat treatment 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 OEM's.

Environmental activism around climate change has started to influence some consumers to reduce their carbon footprints. There is the potential that this could start to impact some of the sectors Bodycote operate in, such as aerospace. The COVID-19 pandemic, as well as the potential for more pandemics in the future, has been added as a new emerging risk in 2020, including its long-term effects for which the full impacts are still to be known.

**Market and customer risks**

Bodycote has presence in 23 countries servicing more than 40,000 customers across a wide variety of end-markets. This presence acts as a natural hedge to neutralise localised economic volatility and component life cycles. The principal risks in this area are:

- General macroeconomic trends, the economic environment and the continuing impact of COVID-19.
- The entry of competitors into one or more of the Group's Specialist Technologies.

**Corporate and community risk**

Bodycote is committed to providing a safe work environment for its employees and each facility has responded proactively and positively to COVID-19 during 2020. There are extensive Group-wide health and safety policies that are subject to regular review and auditing. The principal risk in this area is the safety and health of our employees.

**Environment, social and governance risk**

Investors and stakeholders are increasingly seeking 'best in class' companies across a growing set of ESG criteria. Bodycote is committed to continuous improvement in the management of corporate responsibility issues and is implementing policies and initiatives to further this goal. Our principal risk in this area is the actual or perceived impact on the environment by Bodycote operations.

**Operational risks**

Bodycote has a global network of more than 165 facilities. Each facility has stringent operational quality systems in place managed by qualified staff. These facilities are however subject to a number of operational risks:

- Deterioration in quality or service levels
- Not treating parts in accordance to the confirmed contract specifications
- The loss of key accreditations such as Nadcap for aerospace and defence work and IATF 6949 for automotive
- Disruption due to man-made or natural hazards
- Machinery downtime
- Information technology and cybersecurity

**Regulatory risk**

Bodycote has a strong set of core values supported by the Group Code of Conduct, Group policies, alongside training and awareness programmes. The principal risk in this area is the failure to comply with key local and international legislation.

**Finance risks**

The Group's multinational operations expose it to a variety of financial risks. Financial risk management policies are set by the Board and the Group's financial risk management was reviewed during the year by the Audit Committee. In the course of its business, the Group is exposed to these financial risks:

- Foreign currency
- Interest rate
- Liquidity
- Credit risk

## Environment, Social and Governance

### Our approach to sustainability

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

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

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

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

## Governance

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

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

### Strategy

Bodycote takes a proactive approach to improve sustainability and energy efficiency. At every stage where Bodycote is involved in the manufacturing cycle, our operational aim is to reduce the overall impact on the environment, not just in our operations but also those of our customers. Bodycote operates efficiently, working around the clock to optimise treatment processing cycles. Without Bodycote, many companies would be using older in-house technology and running their equipment at reduced capacity, draining energy resources. Working with Bodycote enables our customers to commit more easily to carbon reduction initiatives. Our proactive carbon reduction initiatives are throughout operations and extend to our service offering by encouraging customers to switch to more efficient processes such as Gas Nitriding or our Specialist Technologies including Low Pressure Carburising, Corr-I-Dur, Surface Technology, and Speciality Stainless Steel Processing ($S^3P$); all of which have an inherently low carbon footprint. As a company, we are building a path to net-zero carbon.

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

### Risk management

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

The supply chain for Bodycote's businesses is principally energy in the form of natural gas and electricity. Bodycote does not use fuel oil. In addition, Bodycote consumes the industrial gases Nitrogen, Argon, Ammonia ($NH_3$) and some Hydrogen. Bodycote has no raw materials supply chain other than marginal amounts of base metals. As such there is no raw material supply chain risk. Clearly any risk to the supply of energy puts Bodycote at risk of being unable to provide its thermal processing services.

**Metrics and targets**

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

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

## Environment

As the world's leading provider of thermal processing services, Bodycote plays an important role in minimising climate change. By effectively consolidating, our many thousands of customers' heat treatment requirements, Bodycote significantly reduces the overall required energy consumed compared with the energy that would be consumed if each customer treated their own products. In this regard, Bodycote should be viewed as an enabler to the goal of a reduction in emissions.

Bodycote's services reduce our customers' carbon footprint by increasing the lifespan of their products by improving metallurgical properties, and enhancing corrosion resistance. For example, Surface Technology is widely used in the reclamation of damaged and worn components, offering a cost-effective and energy-efficient alternative to the need to manufacture new replacement parts. The treated parts often last up to twenty times longer than the original.

**Carbon footprint**

Bodycote offers some of the most energy-efficient processes available on the market place, strives to ensure full capacity utilisation, thereby providing maximum benefit to the client, the company and the environment. Bodycote has been able to reduce our carbon footprint with a 14% reduction in total carbon emissions since 2018. Our total carbon footprint is positively impacted by every customer who works with us to move from atmospheric treatments to our Specialist Technologies, particularly LPC, Corr-I-Dur, $S^3P$, as well as gas nitriding and vacuum heat treatment. These processes are more efficient than the classical atmospheric carburising heat treatments that companies typically use if they process the work in-house.

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

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

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

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

Bodycote's total $CO_2e$ 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 2020 Bodycote's total carbon emissions ($ktCO_2e$) reduced by 8% compared with the previous year.

The total $CO_2e$ emissions per £m sales in 2020 were 486.0 Te (2019: normalised† 427.2 Te). The impact of COVID-19 has meant throughput of customer product has fluctuated; notwithstanding this the energy used in the processes remains the same.

All entities and facilities under financial control are included within the disclosure. Emissions less than 1% of the Group's total $CO_2e$ relating to fugitive emissions and owned vehicles are not significant and are excluded. As such there are no significant omissions from this disclosure.

**Water**

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

The total water consumption, as a ratio of thousand $m^3$ per £ million sales ($10^3m^3$/ £ m), increased by 13%. In 2020, total water consumption reduced however this was primarily driven by lower production hours in 2020.

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

### ISO 14001 accredited facilities

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

### Waste

Bodycote provides services to our customers, and as such, most of the customers' parts that arrive in packaging or containers are returned to the customers in the same packaging or containers. Not only does this practice reduce environmental impact and the waste produced, but it provides efficiency to our customers. Therefore, direct waste is not a significant environmental impact and is principally limited to office materials, packaging and containers from maintenance supplies plus chemical and oil waste from maintenance activities. All waste is segregated into waste streams and disposed of in accordance with local legislation. Waste transfer arrangements are validated via internal and external audit mechanisms.

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

Electricity, natural gas, LPG and transportation fuel consumption information is collected from each facility on a monthly basis. The DEFRA conversion factors are then applied to calculate the total tonnage of $CO_2$e produced.

Bodycote PLC and UK subsidiaries total $CO_2$e emissions (kt$CO_2$e) for 2020 were 13.4. 100% of Bodycote PLC and its UK subsidiaries energy consumption was consumed in the UK.

## Social

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

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

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

### Our people

The Group's strength is based on its people and we strive to support our employees' health and wellbeing while driving a performance culture of business understanding and shared Core Values. We employ proactive individuals who embody our Core Values and ensure they are qualified to support continued growth. Bodycote is fortunate to have a competent and committed international team that is well respected in technical and business circles.

Bodycote invests in the training and development of its people both at the local and Group level. The Group is committed to providing the appropriate skills and training to allow its employees to operate effectively and safely in their roles and deliver results. Regular internal satisfaction surveys are undertaken that provide feedback on the level of satisfaction of centrally provided services. Overall satisfaction reaches appropriate levels.

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

**Response to COVID-19**

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

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

**Equality, diversity and inclusion**

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

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

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

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

**Health and wellbeing**

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

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

**Culture and Core Values**

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

Our Core Values are straightforward and are as follows:

***Honesty and Transparency***

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

***Respect and Responsibility***

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

***Creating Value***

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

Our shareholders rightfully require that we ultimately create value for them as they are the owners of the business.

### Human rights

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

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

By publicly posting our Human Rights Policy and Equality, Diversity and Inclusion Policy on www.bodycote.com, stakeholders worldwide can alert us to potential breaches of the policy. Our internal systems also support compliance with our policy and we have a robust Open Door Line, which is our third-party confidential whistleblower's programme, for employees to report alleged violations of law and/or our policies on a confidential basis and in their own language. In the jurisdictions in which we employ a majority of our employees, there are laws applicable to many of the areas dealt with in our Human Rights Policy and our Equality, Diversity and Inclusion Policy.

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

### The Modern Slavery Act

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

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

### Suppliers

Bodycote's operations are such that the Group does not have significant suppliers who are wholly dependent upon the Group's business and has no significant suppliers on which the Group is dependent upon for a substantial part of its business. We manage our suppliers with respect, honesty, and integrity, no matter the size of the transaction. Suppliers are paid in line with contractual and legal obligations.

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

### Customers

Bodycote works with our customers to service their demand in the most efficacious manner possible. By surveying customer satisfaction levels, we modify our methodologies to become a better thermal processing solutions provider. We endeavour to respond quickly to changing customer demands, identify emerging needs and improve service availability and quality. We stay close to our current and potential customers by building long-term relationships.

### Community

Bodycote seeks to play a positive role in the local communities in which it operates by providing employment opportunities, and building goodwill and a reputation as a good neighbour and employer. Our operations are international but our strength lies in the local nature of our facilities that are close to our customers. Our facilities are relatively small plants that typically employ approximately 30 people. We encourage community involvement activities championed by our plants and their employees locally.

### Responsible business ethics

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

All Bodycote personnel are expected to apply a high ethical standard, that is in keeping with being an international UK-listed company.

Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of and comply with the share dealing code.

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

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

Our Open Door Policy is communicated in all languages used throughout the Group. The policy allows employees to report their concerns confidentially, verbally or in writing, to an independent third-party provider, ensuring anonymity.

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

#### *Supporting employees who speak up*

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

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

## Safety and health

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

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

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

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

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

## Total Reportable Case rate[1] (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)

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

[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.*

## Operational Safety, Health and Environment performance

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

## Directors' responsibility statement

This responsibility statement has been prepared in connection with the Group consolidated financial statements, extracts of which are included within this announcement.

The Directors confirm that to the best of their knowledge:

- The condensed consolidated financial statements included in this document have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and are derived from the audited consolidated financial statements of the Group, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union (they do not contain sufficient information to comply with IFRS);
- The Group's condensed consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- There have been no significant individual related party transactions during the year; and
- There have been no significant changes in the Group's related party relationships from that reported in the half-yearly results for the six months ended 30 June 2020.

The Group's condensed consolidated financial statements, and related notes, including this responsibility statement, were approved by the Board and authorised for issue on 12 March 2021 and were signed on their behalf by:

| **Director** | **Director** |
| --- | --- |
| S C Harris | D Yates |

### Audited financial information

The condensed consolidated financial statements and notes 1 to 13 for the year ended 31 December 2020 are derived from the Group annual financial statements which have been audited by PricewaterhouseCoopers LLP. The unmodified audit report is available for inspection at the Group’s registered office.

# Consolidated income statement

## For the year ended 31 December 2020

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Revenue** | 2 | **598.0** | 719.7 |
| Cost of sales and overheads | | **(535.0)** | (590.5) |
| Net impairment gains/(losses) on financial assets | | **0.4** | (0.6) |
| **Operating profit prior to exceptional items** | 2,3 | **63.4** | 128.6 |
| Exceptional items | 5 | **(58.4)** | – |
| **Operating profit** | 3 | **5.0** | 128.6 |
| Finance income | | **0.2** | 0.2 |
| Finance costs | | **(6.7)** | (4.9) |
| **(Loss)/profit before taxation** | | **(1.5)** | 123.9 |
| Taxation credit/(charge) | 6 | **2.3** | (29.9) |
| **Profit for the year** | | **0.8** | 94.0 |
| Attributable to: | | | |
| Equity holders of the parent | | **0.4** | 93.8 |
| Non-controlling interests | | **0.4** | 0.2 |
| | | **0.8** | 94.0 |
| **Earnings per share** | 8 | | |
| | | **Pence** | Pence |
| Basic | | **0.2** | 49.4 |
| Diluted | | **0.2** | 49.2 |

All activities have arisen from continuing operations.

# Consolidated statement of comprehensive income

For the year ended 31 December 2020

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

# Consolidated balance sheet

At 31 December 2020

| | Note | **2020** **£m** | 2019 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **215.5** | 169.8 |
| Other intangible assets | | **108.0** | 42.6 |
| Property, plant and equipment | | **522.6** | 534.5 |
| Right-of-use assets | | **69.0** | 73.3 |
| Investment in associate | | **4.1** | 4.2 |
| Deferred tax assets | | **2.4** | 6.1 |
| Trade and other receivables | | **2.1** | 1.2 |
| | | **923.7** | 831.7 |
| **Current assets** | | | |
| Inventories | | **15.8** | 14.8 |
| Current tax assets | | **20.7** | 15.7 |
| Trade and other receivables | | **116.2** | 142.9 |
| Cash and bank balances | | **30.7** | 22.0 |
| Assets held for sale | | **2.9** | – |
| | | **186.3** | 195.4 |
| **Total assets** | | **1,110.0** | 1,027.1 |
| Current liabilities | | | |
| Trade and other payables | | **170.9** | 127.4 |
| Current tax liabilities | | **30.7** | 31.2 |
| Borrowings | | **53.2** | 1.1 |
| Lease liabilities | | **13.6** | 13.4 |
| Provisions | 9 | **26.0** | 4.0 |
| | | **294.4** | 177.1 |
| **Net current (liabilities)/assets** | | **(108.1)** | 18.3 |
| Non-current liabilities | | | |
| Lease liabilities | | **62.0** | 66.0 |
| Retirement benefit obligations | | **16.2** | 17.9 |
| Deferred tax liabilities | | **42.7** | 48.6 |
| Provisions | 9 | **11.0** | 9.5 |
| Other payables | | **2.3** | 2.2 |
| | | **134.2** | 144.2 |
| **Total liabilities** | | **428.6** | 321.3 |
| **Net assets** | | **681.4** | 705.8 |
| **Equity** | | | |
| Share capital | | **33.1** | 33.1 |

| | | |
|---|---|---|
| Share premium account | **177.1** | 177.1 |
| Own shares | **(6.9)** | (11.6) |
| Other reserves | **132.6** | 136.7 |
| Translation reserves | **37.9** | 37.9 |
| Retained earnings | **306.7** | 331.8 |
| **Equity attributable to equity holders of the parent** | **680.5** | 705.0 |
| Non-controlling interests | **0.9** | 0.8 |
| **Total equity** | **681.4** | 705.8 |

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

They were signed on its behalf by:

**S.C. Harris** **D. Yates**

# Consolidated cash flow statement

## For the year ended 31 December 2020

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Net cash from operating activities** | | **139.1** | 177.3 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | **(57.8)** | (77.7) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **1.9** | 7.4 |
| Purchases of other intangible assets | | **(2.1)** | (1.0) |
| Acquisition of businesses, net of cash acquired | 10 | **(66.7)** | (19.1) |
| Interest received[1] | | **0.3** | 0.2 |
| **Net cash used in investing activities** | | **(124.4)** | (90.2) |
| Financing activities | | | |
| Interest paid | | **(5.0)** | (4.7) |
| Dividends paid | 7 | **(25.1)** | (74.9) |
| Principal elements of lease payments | | **(15.5)** | (14.4) |
| Drawdown of bank loans | | **101.9** | 35.0 |
| Repayments of bank loans | | **(62.1)** | (37.3) |
| Own shares purchased | | **(0.5)** | (6.0) |
| **Net cash used in financing activities** | | **(6.3)** | (102.3) |
| **Net increase/(decrease) in cash and cash equivalents** | | **8.4** | (15.2) |
| **Cash and cash equivalents at beginning of year** | | **20.9** | 36.2 |
| Effect of foreign exchange rate changes | | **(0.1)** | (0.1) |
| **Cash and cash equivalents at end of year** | 11 | **29.2** | 20.9 |

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

# Consolidated statement of changes in equity

For the year ended 31 December 2020

| | Share capital £m | Share premium account £m | Own shares £m | Other reserves £m | Translation reserves £m | Retained earnings £m | Equity attributable to equity holders of the parent £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| 1 January 2019 | 33.1 | 177.1 | (14.8) | 141.4 | 64.2 | 317.6 | 718.6 | 0.7 | 719.3 |
| Profit for the year | – | – | – | – | – | 93.8 | 93.8 | 0.2 | 94.0 |
| Exchange differences on translation of overseas operations | – | – | – | – | (26.3) | – | (26.3) | (0.1) | (26.4) |
| Actuarial losses on defined benefit pension schemes net of deferred tax | – | – | – | – | – | (1.1) | (1.1) | – | (1.1) |
| **Total comprehensive income for the year** | – | – | – | – | (26.3) | 92.7 | 66.4 | 0.1 | 66.5 |
| Acquired in the year/settlement of share options | – | – | 3.2 | (5.8) | – | (3.4) | (6.0) | – | (6.0) |
| Share-based payments | – | – | – | 1.1 | – | – | 1.1 | – | 1.1 |
| Deferred tax on share-based payment transactions | – | – | – | – | – | (0.4) | (0.4) | – | (0.4) |
| Dividends | – | – | – | – | – | (74.7) | (74.7) | – | (74.7) |
| **31 December 2019** | **33.1** | **177.1** | **(11.6)** | **136.7** | **37.9** | **331.8** | **705.0** | **0.8** | **705.8** |
| **Profit for the year** | **–** | **–** | **–** | **–** | **–** | **0.4** | **0.4** | **0.4** | **0.8** |
| Exchange differences on translation of overseas operations | **–** | **–** | **–** | **–** | **(1.1)** | **–** | **(1.1)** | **(0.3)** | **(1.4)** |
| Movements on hedges of net investments | **–** | **–** | **–** | **–** | **1.1** | **–** | **1.1** | **–** | **1.1** |
| Actuarial gains on defined benefit pension schemes net of deferred tax | **–** | **–** | **–** | **–** | **–** | **0.4** | **0.4** | **–** | **0.4** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **–** | **0.8** | **0.8** | **0.1** | **0.9** |
| Acquired in the year/settlement of share options | **–** | **–** | **4.7** | **(4.5)** | | **(0.8)** | **(0.6)** | **–** | **(0.6)** |
| Share-based payments | **–** | **–** | **–** | **0.4** | **–** | **–** | **0.4** | **–** | **0.4** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **(25.1)** | **(25.1)** | **–** | **(25.1)** |
| **31 December 2020** | **33.1** | **177.1** | **(6.9)** | **132.6** | **37.9** | **306.7** | **680.5** | **0.9** | **681.4** |

Included in other reserves is a capital redemption reserve of £129.8m (2019: £129.8m) and a share-based payments reserve of £2.0m (2019: £6.1m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2020 865,565 (2019: 1,405,555) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

# Notes to the consolidated financial statements

Year ended 31 December 2020

## 1. Alternative performance measures (APMs)

Bodycote uses various APMs, in addition to those reported under IFRS, as management consider these measures enable users of the financial statements to assess the underlying trading performance of the business. These APMs of financial performance, position or cash flows are not defined or specified according to International Financial Reporting Standards (IFRS) and are defined below and, where relevant, are reconciled to IFRS measures. APMs are prepared on a consistent basis for all periods presented in this report.

The APMs used include headline operating profit, headline operating margin, headline profit before taxation, EBITDA, headline EBITDA, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, net (debt)/cash, net (debt)/cash plus lease liabilities and Return On Capital Employed (ROCE). These measures reflect the underlying trading performance of the business as they exclude certain non-operational items, exceptional items, acquisition costs and the amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the underlying performance of the business. The measures described above are also used in the targeting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) with headline EPS and ROCE also used in executive share schemes.

The constant exchange rate comparison uses the current year reported segmental information, stated in the relevant functional currency, and translates the results into its presentational currency using the prior year's monthly exchange rates. Expansionary capital expenditure is defined as capital expenditure invested to grow the Group's business.

**Headline operating profit**

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

**Headline operating margin**

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

**Headline profit before taxation**

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

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

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

**Headline operating cash flow**

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

**Free cash flow**

| | **2020 £m** | 2019 £m |
|---|---|---|
| Headline operating cash flow | **130.2** | 155.5 |
| Less: | | |

| | | |
|---|---|---|
| Restructuring cash flows | **(11.6)** | (3.2) |
| Income taxes paid | **(7.8)** | (24.7) |
| Interest paid | **(4.7)** | (4.5) |
| **Free cash flow** | **106.1** | 123.1 |

**Headline operating cash conversion**

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

**Headline tax charge**

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

**Headline tax rate**

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

**Headline earnings per share**
A detailed reconciliation is provided in note 8.

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

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

**Return on capital employed**

| | **2020 £m** | 2019 £m |
|---|---|---|
| Headline operating profit | **75.3** | 134.9 |

| | | |
|---|---|---|
| Average capital employed[1] | **770.5** | 762.4 |
| **Return on capital employed** | **9.8%** | 17.7% |

**Revenue and headline operating profit at constant exchange rates**
Reconciled to revenue and headline operating profit in the table below:

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

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

## 2. Business and geographical segments

The Group has more than 165 facilities across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 Operating Segments, the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who regularly reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

ADE – Western Europe;

ADE – North America;

ADE – Emerging markets;

AGI – Western Europe;

AGI – North America; and

AGI – Emerging markets.

The split of operating segments by geography reflects the business reporting structure of the Group.

We have also presented combined results of our two key business areas, ADE and AGI. The split being driven by customer behaviour and requirements, geography, and services provided. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

| **Group** | **ADE 2020 £m** | **AGI 2020 £m** | **Central costs and eliminations 2020 £m** | **Consolidated 2020 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **249.2** | **348.8** | **–** | **598.0** |
| **Result** | | | | |

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

Inter-segment sales are not material in either year.

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

| **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)** |
| Acquisition costs | **–** | **–** | **–** | **–** |
| Operating profit/(loss) prior to exceptional items | **26.2** | **(3.6)** | **14.3** | **36.9** |
| Exceptional items | **(24.8)** | **(9.4)** | **(1.1)** | **(35.3)** |

| | | | | |
|---|---|---|---|---|
| Segment result | **1.4** | **(13.0)** | **13.2** | **1.6** |

| **Group** | ADE 2019 £m | AGI 2019 £m | Central costs and eliminations 2019 £m | Consolidated 2019 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 301.4 | 418.3 | – | 719.7 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments and unallocated central costs | 76.8 | 65.6 | – | 142.4 |
| Share-based payments (including social charges) | (1.0) | 0.3 | (0.6) | (1.3) |
| Unallocated central costs | – | – | (6.2) | (6.2) |
| Headline operating profit/(loss) | 75.8 | 65.9 | (6.8) | 134.9 |
| Amortisation of acquired intangible assets | (1.1) | (3.5) | – | (4.6) |
| Acquisition costs | (1.3) | (0.4) | – | (1.7) |
| Segment result | 73.4 | 62.0 | (6.8) | 128.6 |
| Finance income | | | | 0.2 |
| Finance costs | | | | (4.9) |
| Profit before taxation | | | | 123.9 |
| Taxation | | | | (29.9) |
| Profit for the year | | | | 94.0 |

| **Aerospace, Defence & Energy** | Western Europe 2019 £m | North America 2019 £m | Emerging markets 2019 £m | Total ADE 2019 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 141.3 | 158.7 | 1.4 | 301.4 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | 35.9 | 40.6 | 0.3 | 76.8 |
| Share-based payments (including social charges) | (0.4) | (0.6) | – | (1.0) |
| Headline operating profit | 35.5 | 40.0 | 0.3 | 75.8 |
| Amortisation of acquired intangible assets | – | (1.1) | – | (1.1) |
| Acquisition costs | – | (1.3) | – | (1.3) |
| Segment result | 35.5 | 37.6 | 0.3 | 73.4 |

| **Automotive & General Industrial** | Western Europe 2019 £m | North America 2019 £m | Emerging markets 2019 £m | Total AGI 2019 £m |
|---|---|---|---|---|
| **Revenue** | | | | |

| | | | | |
|---|---|---|---|---|
| Total revenue | 246.0 | 107.4 | 64.9 | 418.3 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | 40.5 | 9.7 | 15.4 | 65.6 |
| Share-based payments (including social charges) | 0.6 | (0.3) | – | 0.3 |
| Headline operating profit | 41.1 | 9.4 | 15.4 | 65.9 |
| Amortisation of acquired intangible assets | (0.4) | (2.9) | (0.2) | (3.5) |
| Acquisition costs | (0.4) | – | – | (0.4) |
| Segment result | 40.3 | 6.5 | 15.2 | 62.0 |

**Other information**

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

| **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 2020 £m** | **Emerging markets 2020 £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** |

| **Group** | ADE 2019 £m | AGI 2019 £m | Central costs and eliminations 2019 £m | Consolidated 2019 £m |
|---|---|---|---|---|
| Gross capital additions | 27.5 | 49.6 | 4.8 | 81.9 |
| Depreciation and amortisation | 29.1 | 52.8 | 2.3 | 84.2 |
| **Balance sheet** | | | | |
| Segment assets | 375.5 | 607.1 | 44.5 | 1,027.1 |
| Segment liabilities | (82.4) | (171.8) | (67.1) | (321.3) |
| Segment net assets | 293.1 | 435.3 | (22.6) | 705.8 |

| **Aerospace, Defence & Energy** | Western Europe 2019 £m | North America 2019 £m | Emerging markets 2019 £m | Total ADE 2019 £m |
|---|---|---|---|---|
| Gross capital additions | 10.4 | 17.0 | 0.1 | 27.5 |
| Depreciation and amortisation | 13.1 | 15.9 | 0.1 | 29.1 |
| **Balance sheet** | | | | |
| Segment assets | 181.5 | 189.2 | 4.8 | 375.5 |
| Segment liabilities | (43.7) | (38.5) | (0.2) | (82.4) |
| Segment net assets | 137.8 | 150.7 | 4.6 | 293.1 |

| **Automotive & General Industrial** | Western Europe 2019 £m | North America 2019 £m | Emerging markets 2019 £m | Total AGI 2019 £m |
|---|---|---|---|---|
| Gross capital additions | 18.1 | 19.4 | 12.1 | 49.6 |
| Depreciation and amortisation | 27.4 | 15.3 | 10.1 | 52.8 |
| **Balance sheet** | | | | |
| Segment assets | 289.2 | 182.2 | 135.7 | 607.1 |
| Segment liabilities | (101.5) | (30.3) | (40.0) | (171.8) |
| Segment net assets | 187.7 | 151.9 | 95.7 | 435.3 |

**Geographical information**
The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

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

## 3. Operating profit

| | **2020 £m** | 2019 £m |
|---|---|---|
| Revenue | **598.0** | 719.7 |
| Cost of sales | **(401.3)** | (452.3) |
| Gross profit | **196.7** | 267.4 |
| Other operating income | **4.4** | 14.4 |
| Distribution costs | **(15.6)** | (21.6) |
| Administration expenses | **(109.0)** | (124.7) |
| Other operating expenses | **(1.2)** | (0.6) |
| Headline operating profit | **75.3** | 134.9 |
| Amortisation of acquired intangible assets | **(9.8)** | (4.6) |
| Acquisition costs (see note 10) | **(2.1)** | (1.7) |
| Operating profit prior to exceptional items | **63.4** | 128.6 |
| Exceptional items (see note 5) | **(58.4)** | – |

| | | |
|---|---|---|
| Operating Profit | **5.0** | 128.6 |

Further details of acquisition costs and exceptional items are included in note 5 and note 10 of this 2020 Full Year Result press release.

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

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

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

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

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

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

The audit fees disclosed for 2020 include £0.1m of fees in connection with the 2019 audit. A description of the work of the Audit Committee, including an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor, is set out in the Report of the Audit Committee in the 2020 Annual Report on page 59.

## 4. Government assistance

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

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

## 5. Exceptional items

| | **2020 £m** | 2019 £m |
|---|---|---|
| Severance and redundancy costs | **20.8** | – |
| Property, plant and equipment impairments for assets no longer required | **15.9** | – |
| Impairment of other assets | **0.6** | – |
| Site closure costs | **12.0** | – |
| Environmental provisions – see note 9 | **2.9** | – |
| Total exceptional restructuring items | **52.2** | – |
| Impairment of other intangible assets | **6.2** | – |
| Total exceptional items | **58.4** | – |

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

Restructuring cash spend to date amounts to £11.6m, with £24.1m held as provisions at 31 December 2020. Refer to note 9.

## 6. Taxation

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

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison which in 2020 is based on a loss before taxation is 24.1% (2019: 25.9%).

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

| | **2020 £m** | 2019 £m |
|---|---|---|

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

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

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

2 2020 and 2019 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions.

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

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

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £22.1m were recognised at 31 December 2020 (2019: £15.3m). £5.4m (2019: £3.0m) of the tax provisions are expected to crystalise within 12 months. The provisions included are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquires, and determining whether any possible liability is probable.

## 7. Dividends

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

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

The Board approved the payment of an interim dividend for 2020 of 6.0p (£11.4m) on 24 November paid on 12 February 2021 to shareholders on the register at the close of business on 8 January 2021. The Board has proposed a 2020 final ordinary dividend of 13.4p per share to be paid on 4 June 2021 to shareholders on the register at close of business at 23 April 2021 subject to approval by shareholders at the Annual General Meeting.

As the proposed dividend is subject to shareholder approval in 2021, it is not included as a liability in these financial statements.

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

## 8. Earnings per share

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent | **0.4** | 93.8 |

| | **Number** | Number |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **190,374,428** | 189,921,112 |
| Effect of dilutive potential ordinary shares | | |
| Shares subject of performance conditions[1] | **-** | 794,287 |
| **Weighted average number of ordinary shares for the purpose of diluted earnings per share** | **190,374,428** | **190,715,399** |

| | **Pence** | Pence |
|---|---|---|
| **Earnings per share:** | | |
| Basic | **0.2** | 49.4 |
| Diluted[1] | **0.2** | 49.2 |

| | **£m** | £m |
|---|---|---|
| **Headline earnings** | | |
| Net profit attributable to equity holders of the parent | **0.4** | 93.8 |
| Add back: | | |
| Amortisation of acquired intangible assets (net of tax) | **7.4** | 3.5 |
| Acquisition costs (net of tax) | **1.5** | 1.7 |
| Exceptional items (net of tax) | **43.6** | – |
| **Headline earnings** | **52.9** | 99.0 |

| | **Pence** | Pence |
|---|---|---|
| **Headline earnings per share:** | | |
| Basic | **27.8** | 52.1 |
| Diluted[1] | **27.8** | 51.9 |

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

## 9. Provisions

| | Restructuring £m | Restructuring environmental £m | Environmental £m | Total £m |
|---|---|---|---|---|
| At 1 January 2020 | **3.0** | **2.4** | **8.1** | **13.5** |
| Increase in provision | **32.8** | **2.9** | **–** | **35.7** |
| On acquisition of subsidiary | **–** | **–** | **0.2** | **0.2** |
| Utilisation of provision | **(11.2)** | **(0.4)** | **(0.5)** | **(12.1)** |
| Exchange difference | **(0.1)** | **(0.1)** | **(0.1)** | **(0.3)** |
| **At 31 December 2020** | **24.5** | **4.8** | **7.7** | **37.0** |
| Included in current liabilities | | | | **26.0** |
| Included in non-current liabilities | | | | **11.0** |
| | | | | **37.0** |

£35.7m of restructuring provisions have been recorded following the announcement of several restructuring initiatives across the Group. The restructuring provisions consist of provisions for employee severance and redundancy (£20.8m) and costs associated with closing plants (£12.0m) and (£2.9m) for environmental provisions. These restructuring provisions have been included in exceptional items and further details of this programme can be found in the Full Year Commentary section included within this 2020 Full Year Result press release and in note 5.

Cash outflows in relation to restructuring initiatives were £11.6m with the remaining outflows to occur in 2021 and 2022.

The Group provides for the costs of environmental remediation that have been identified at the time of plant closure if there is a probable outflow of economic resources identified, as part of acquisition due diligence, or in other circumstances where remediation by the Group is required and a probable outflow of economic resources is identified. This provision is reviewed annually and is separated into restructuring environmental and environmental to identify separately environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The majority of cash outflows in respect of these liabilities are expected to occur within five years.

The Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore no provision is recognised in relation to these items.

## 10. Acquisition of businesses

During the year the Group completed the acquisition of 100% of the ordinary share capital of Ellison Surface Technologies (‘Ellison’) for total provisional consideration of £130.0m. Ellison is a Surface Technology business located in North America with a number of sites primarily serving the aerospace sector.

The acquisition significantly strengthens the Group's network, enhances processes and creates synergies allowing the Group to deliver industry-leading solutions that address aerospace customers' heat treatment and specialist thermal treatment requirements.

The accounting is provisional as the Group has twelve months to finalise the valuation of the acquired assets and liabilities and the resultant goodwill under IFRS 3.

The transaction has been accounted for as a business combinations under IFRS 3 and is summarised below:

| Fair value of net assets acquired: | **2020 £m** |
|---|---|
| Other intangible assets | **87.9** |
| Property, plant and equipment | **14.8** |
| Right-of-use assets | **5.1** |
| Inventories | **2.6** |
| Trade and other receivables | **7.3** |
| Trade and other payables | **(19.4)** |
| Lease liabilities | **(5.1)** |
| Deferred tax liabilities | **(1.1)** |
| Provisions | **(0.2)** |
| Bank loans | **(11.9)** |
| | **80.0** |
| Goodwill | **50.0** |
| Total consideration | **130.0** |
| Satisfied by: | |
| Cash consideration | **66.1** |
| Deferred consideration | **63.9** |
| Total consideration transferred | **130.0** |
| **Net cash outflow arising on acquisition:** | |
| Cash consideration | **66.1** |
| Deferred consideration paid | **0.6** |
| Payment of debt and other payables acquired post completion | **28.8** |
| | **95.5** |

Acquisition related costs amounted to £2.1m (2019: £1.7m of which £1.3m related to the Ellison acquisition) and have been included in the Income Statement.

The gross contractual value of the trade and other receivables was £7.8m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £nil.

Deferred consideration is settled in US dollars which translated to £63.9m at the acquisition date, on a discounted basis. £0.6m of the original deferred consideration was paid in October as per agreement with the seller. The remaining deferred consideration is payable on 3 April 2021, being 12 months after the completion date of the acquisition.

As the deferred consideration is settled in US dollars, it is subject to exchange rate movements of £5.4m when translated at 31 December 2020 rates. This foreign exchange difference is recorded within foreign exchange reserves in the financial statements. The deferred consideration payable held on the balance sheet at 31 December 2020 is £58.7m, including the impact of £0.3m due to discounting.

The goodwill arising on the acquisition is expected to be deductible for tax purposes and is attributable to:

– the anticipated profitability of the distribution of the Group's services in new markets; and

– the synergies that can be achieved in the business combination including management processes and maximising site capacities.

The business was acquired on 3 April 2020 and contributed £22.6m revenue, £0.9m headline operating profit and £4.0m operating loss, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, the acquisition would have contributed £34.3m to Group revenue, £1.7m to Group headline operating profit and £3.2m operating loss.

In the prior year the group acquired two facilities that were accounted for as business combinations for total consideration of £20.0m resulting in £10.4m of goodwill being recognised in the consolidated financial statements, and payments totalling £0.1m were made in respect of deferred consideration due on acquisitions made in 2016. Refer to note 23 in the 2019 Annual Report for further information.

## 11. Notes to the cash flow statement

| | **2020 £m** | 2019 £m |
|---|---|---|
| Profit for the year | **0.8** | 94.0 |
| Adjustments for: | | |
| Finance income | **(0.2)** | (0.2) |
| Finance costs | **6.7** | 4.9 |
| Taxation (credit)/charge | **(2.3)** | 29.9 |
| Operating profit | **5.0** | 128.6 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **65.2** | 63.3 |
| Depreciation of right-of-use assets | **14.8** | 14.5 |
| Amortisation of other intangible assets | **11.9** | 6.4 |
| Loss/(profit) on disposal of property, plant and equipment | **0.6** | (4.4) |
| Share-based payments | **0.4** | 1.1 |
| Income from associate | **(0.2)** | (0.2) |
| Impairment of property, plant and equipment and other assets - recognised in exceptional items | **16.5** | – |
| Impairment of property, plant and equipment and other assets - recognised in operating profit | **0.3** | – |
| Impairment of other intangible assets - recognised in exceptional items | **6.2** | – |
| **EBITDA (See note 1)** | **120.7** | 209.3 |
| Decrease/(increase) in inventories | **2.1** | (1.5) |
| Decrease/(increase) in receivables | **35.6** | (1.1) |
| Decrease in payables | **(35.1)** | (2.1) |
| Increase/(decrease) in provisions | **23.6** | (2.6) |
| **Cash generated by operations** | **146.9** | 202.0 |
| Income taxes paid | **(7.8)** | (24.7) |
| **Net cash from operating activities** | **139.1** | 177.3 |

| | **2020 £m** | 2019 £m |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | **30.7** | 22.0 |
| Bank overdrafts (included in borrowings) | **(1.5)** | (1.1) |
| | **29.2** | 20.9 |

## 12. Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. There are no differences for the Group in applying each of these accounting frameworks.

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

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

## 13. Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s.498 (2) or (3) of the Companies Act 2006.