2021 Results Press Release
Monday, 14 March 2021
Circulation: RNS formatted

Bodycote

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Bodycote plc
Full year results for year ended 31 December 2021

'Good progress in 2021, well positioned as revenues grow'

Financial summary

	2021		2020		% Change Constant Currency	% Change
Revenue	**£615.8**	**m**	£598.0	m	7.1%	3.0%
Headline operating profit[1]	**£94.8**	**m**	£75.3	m	32%	26%
Headline operating margin[1]	**15.4**	**%**	12.6	%		
Exceptional items[2]	**-**	**m**	£(58.4)	m		
Free cash flow[1]	**£105.0**	**m**	£106.1	m		-1%
Basic headline earnings per share[1,3]	**35.8**	**p**	27.8	p	34%	29%
Ordinary dividend per share	**20.0**	**p**	19.4	p		
Return on capital employed[1]	**12.0**	**%**	9.8	%		

Additional statutory measures

	2021		2020	
Operating profit	**£83.8**	**m**	£5.0	m
Profit after tax	**£60.0**	**m**	£0.8	m
Net cash from operating activities	**£144.3**	**m**	£139.1	m
Basic earnings per share	**31.2**	**p**	0.2	p

Highlights

Results

- Revenues up 7.1% at constant currency to £615.8m (organic revenues up 5.2%)
- Headline operating margin at 15.4% (2020: 12.6%)
- Free cash flow of £105m
- Closing net debt[1] of £52m
- Final ordinary dividend 13.8p, total year 20.0p (2020: 19.4p)

Strategic Progress

- 2020 restructuring programme completed, with permanent cost savings of £20m delivered in 2021
- Incremental £10m of permanent cost savings to come in 2022
- Emerging Markets' revenues up 17% at constant currency
- Specialist Technologies' revenues up 7%[4], outperforming Classical Heat Treatment
- Strong margin improvement anticipated as revenues grow

Commenting, Stephen Harris, Group Chief Executive said:

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

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

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

1 The headline performance measures represent the statutory results excluding certain non-operational items. Net debt excludes lease liabilities. These are deemed alternative performance measures under the Financial Reporting Council (FRC) guidelines. Please refer to the full-year results press release for a reconciliation to the nearest IFRS equivalent.
2 Detail of exceptional items is provided in note 3.
3 A detailed earnings per share reconciliation is provided in note 6.
4 At constant currency.

END

Full Year Results Presentation

Bodycote will be presenting our results via webcast at **09.00am UK GMT on 14 March 2022**. Please find the following instructions to connect to the video and audio:

Webcast URL:
https://www.bodycote.com/results-webcast-2021

For dial-in only:
Participant dial-in numbers are:
United Kingdom: 0800 640 6441
UK local: 0203 936 2999
All other locations: +44 203 936 2999

Participant Access Code: 617409

This presentation will be available at www.bodycote.com

For further information, please contact:

Bodycote plc
Stephen Harris, Group Chief Executive
Dominique Yates, Chief Financial Officer
Tel: +44 1625 505 300

FTI Consulting
Richard Mountain
Susanne Yule
Tel: +44 203 727 1340

Full Year Commentary

Overview

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

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

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

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

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

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

Market sectors

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

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

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

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

Specialist Technologies
Expanding Specialist Technologies activities is a key strategic focus for Bodycote. These technologies are differentiated, early stage processes with high margins, large market opportunities and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors. These technologies address multiple market sectors. We continue to invest in these technologies organically, in both capital and people, and through acquisitions. Specialist Technologies' revenues increased 13% to £184m in 2021, boosted by the full year contribution from the Ellison acquisition. Organic Specialist Technologies' revenues increased 7%. Bodycote's AGI focused Specialist Technologies' revenues grew 22% during the year, which compares favourably with the 9% increase in the combined AGI Classical Heat Treatment revenues. Bodycote's ADE focused Specialist Technologies' revenues declined 2% organically during the year, outperforming the 4% decline in the comparable organic ADE Classical Heat Treatment revenues. Specialist Technologies' revenues constituted 30% of Bodycote's revenues in the year and 42% of headline operating profit.

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

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

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

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

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

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

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

Ukraine invasion

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

Strategic progress and sustainability

Bodycote's strategy is based on:

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

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

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

Summary and outlook

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

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

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

Business review

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

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

The ADE business

Bodycote services all of the major manufacturers in the aerospace industry as well as a large portion of their supply chains. Within ADE, we have more than 55 facilities around the world, including Hot Isostatic Pressing (HIP) and Surface Technology facilities, alongside our Classical Heat Treatment plants.

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

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

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

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

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

The AGI business

Our extensive network of more than 100 AGI facilities enables the business to offer customers the broadest range of capability and security of supply. Bodycote has a long and successful history of servicing its wideranging customer base. Each of our AGI facilities works with their customers to respond with the expertise and appropriate service level required, no matter the size of the customer's demand.

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

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

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

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

Financial overview

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

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

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

Finance charge

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

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

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

Profit before taxation

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

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

Taxation

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

The effective statutory tax rate was 22.6%. Provisions of £24.0m (2020: £22.1m) are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Reference is made to note 4 below for more information.

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

Earnings per share

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

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

Return on capital employed

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

Cash flow

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

1. Refer to the alternative performance measures section below for a reconciliation of Operating Profit to Headline EBITDA.

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

Expansionary capital expenditure and acquisitions

The Group invested £15.6m (2020: £20.0m) in expansionary projects, mainly related to investment in two new AGI plants in North America and expansion activities in our North American HIP business. The two new North American facilities facilitated some of the restructuring activities undertaken during the year, which, in turn, has improved the overall quality of our operations.

The Group remains committed to invest in maintaining its assets to the highest standards of quality and safety. In December, the Group acquired a HIP business in Western Europe for consideration of £8.2m, strengthening further the strategically important Specialist Technologies' businesses.

Dividend and dividend policy

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

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

Borrowing facilities

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

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

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

Alternative performance measures

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow, organic sales, headline operating cash conversion, free cash flow and return on capital employed together with current measures restated at constant currency. The Directors believe that these assist users of the financial statements to gain a clearer understanding of the trading performance of the business, allowing the impact of restructuring and reorganisation activities and amortisation of acquired intangible assets to be identified separately. These alternative performance measures can be found in the section following the notes to the financial statements in this 2021 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 above includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

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

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

The key covenants attached to the Group's Revolving Credit Facility relate to financial gearing (net debt to EBITDA) and interest cover, which are measured on a pre-IFRS 16 basis. The maximum financial gearing ratio permitted under the covenants is 3.0x (with an acquisition spike at 3.5x) and the minimum interest cover ratio permitted is 4.0x. In both the base case and the severe but plausible downside scenario modelled, the Group continues to maintain sufficient liquidity and meets its gearing and interest cover covenants under the Revolving Credit Facility with substantial headroom.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. For the purposes of the going concern assessment, the Directors have only taken into account the capacity under existing committed facilities, being predominantly the Group's Revolving Credit Facility.

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

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

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. An update to the Executive and Audit Committees on the Group's risk activities at every meeting and a comprehensive review of the Group's business critical and emerging risks is presented to the Board in June and in December. The Board concluded that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2021 and a robust assessment of the principal and emerging risks had been undertaken.

The risks to the business have been reviewed throughout the year, and the Board has determined that there are no new principal risks to the Group. However, given the effects of climate change on the Group's emerging risk profile and the wider impacts of both physical and transitional risk, the Group has refocussed its previous Environmental, Social and Governance risk to Climate Change risk.

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, including the long-term effects for which the full impacts are still not known. The pervasive impact of COVID-19 on the Group has been reflected throughout the identified risks.

Market and customer risks

Bodycote's presence in 22 countries servicing more than 40,000 customers across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility and component life cycles.
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.
- Inflation Costs.

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 2021. 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
Climate change risk is increasing and has become a focus of interest to the investment community and Bodycote stakeholders specifically, seeking to understand how we manage environmental impact, including carbon management. 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 risks in this area are the actual or perceived impact on the environment by Bodycote operations, that we do not adapt competitively to the requirement for lower emissions, and that we do not anticipate the impact of climate change to ensure that the Group's operations are sustainable.

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

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 are derived from the audited consolidated financial statements of the Group, prepared in accordance with UK-adopted international accounting standards (they do not contain sufficient information to comply with IFRS);
- The Group's consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, cash flows 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 2021.

The Group's condensed consolidated financial statements, and related notes, including this responsibility statement, were approved by the Board and authorised for issue on 14 March 2022 and were signed on their behalf by:

By order of the Board,

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

Audited financial information

The consolidated financial statements and notes 1 to 11 for the year ended 31 December 2021 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 2021

	Note	2021 £m	2020 £m
Revenue	1	**615.8**	598.0
Cost of sales and overheads excluding exceptional items		**(533.2)**	(535.0)
Net impairment gains on financial assets		**1.2**	0.4
Operating profit prior to exceptional items	1,2	**83.8**	63.4
Exceptional items	3	**-**	(58.4)
Operating profit	2	**83.8**	5.0
Finance income		**0.3**	0.2
Finance charge		**(6.6)**	(6.7)
Profit/(loss) before taxation		**77.5**	(1.5)
Taxation (charge)/credit	4	**(17.5)**	2.3
Profit for the year		**60.0**	0.8
Attributable to:			
Equity holders of the parent		**59.5**	0.4
Non-controlling interests		**0.5**	0.4
		60.0	0.8
Earnings per share	6		
		Pence	Pence
Basic		**31.2**	0.2
Diluted		**31.2**	0.2

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

Consolidated statement of comprehensive income

For the year ended 31 December 2021

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

Consolidated balance sheet

As at 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill		**213.9**	215.5
Other intangible assets		**108.1**	108.0
Property, plant and equipment		**489.3**	522.6
Right-of-use assets		**57.6**	69.0
Investment in associate		**-**	4.1
Deferred tax assets		**2.2**	2.4
Trade and other receivables		**1.6**	2.1
		872.7	923.7
Current assets			
Inventories		**19.3**	15.8
Current tax assets		**20.6**	20.7
Trade and other receivables		**117.0**	116.2
Cash and bank balances		**39.3**	30.7
Derivative financial instruments		**0.5**	-
Assets held for sale		**0.4**	2.9
		197.1	186.3
Total assets		**1,069.8**	1,110.0
Current liabilities			
Trade and other payables		**110.0**	170.9
Current tax liabilities		**34.0**	30.7
Borrowings		**91.7**	53.2
Lease liabilities		**12.9**	13.6
Provisions	7	**14.4**	26.0
		263.0	294.4
Net current liabilities		**(65.9)**	(108.1)
Non-current liabilities			
Lease liabilities		**51.6**	62.0
Retirement benefit obligations		**13.9**	16.2
Deferred tax liabilities		**47.0**	42.7
Provisions	7	**7.4**	11.0
Other payables		**1.5**	2.3
		121.4	134.2
Total liabilities		**384.4**	428.6
Net assets		**685.4**	681.4
Equity			
Share capital		**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(6.2)**	(6.9)
Other reserves		**136.5**	132.6
Translation reserves		**24.8**	37.9
Retained earnings		**319.4**	306.7
Equity attributable to equity holders of the parent		**684.7**	680.5
Non-controlling interests		**0.7**	0.9
Total equity		**685.4**	681.4

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

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash from operating activities	9	**144.3**	139.1
Investing activities			
Purchases of property, plant and equipment		**(45.1)**	(57.8)
Proceeds on disposal of property, plant and equipment and intangible assets		**11.7**	1.9
Purchases of other intangibles assets		**(6.9)**	(2.1)
Proceeds from disposal of investment in an associate		**1.5**	-
Acquisition of businesses, net of cash acquired	8	**(66.0)**	(66.7)
Interest received		**0.3**	0.3
Net cash used in investing activities		**(104.5)**	(124.4)
Financing activities			
Interest paid		**(5.5)**	(5.0)
Dividends paid	5	**(49.0)**	(25.1)
Principal elements of lease payments		**(14.4)**	(15.5)
Drawdown of bank loans		**155.5**	101.9
Repayments of bank loans		**(116.9)**	(62.1)
Own shares purchased		**-**	(0.5)
Net cash used in financing activities		**(30.3)**	(6.3)
Net increase in cash and cash equivalents		**9.5**	8.4
Cash and cash equivalents at beginning of year		**29.2**	20.9
Effect of foreign exchange rate changes		**(0.8)**	(0.1)
Cash and cash equivalents at end of year	9	**37.9**	29.2

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2020	33.1	177.1	(11.6)	136.7	37.9	331.8	705.0	0.8	705.8
Profit for the year	-	-	-	-	-	0.4	0.4	0.4	0.8
Exchange differences on translation of overseas operations	-	-	-	-	(1.1)	-	(1.1)	(0.3)	(1.4)
Movements on hedges of net investments	-	-	-	-	1.1	-	1.1	-	1.1
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	0.4	0.4	-	0.4
Total comprehensive income for the year	-	-	-	-	-	0.8	0.8	0.1	0.9
Acquired in the year/settlement of share options	-	-	4.7	(4.5)	-	(0.8)	(0.6)	-	(0.6)
Share-based payments	-	-	-	0.4	-	-	0.4	-	0.4
Dividends	-	-	-	-	-	(25.1)	(25.1)	-	(25.1)
31 December 2020	**33.1**	**177.1**	**(6.9)**	**132.6**	**37.9**	**306.7**	**680.5**	**0.9**	**681.4**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**59.5**	**59.5**	**0.5**	**60.0**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**-**	**(14.1)**	**-**	**(14.1)**	**(0.7)**	**(14.8)**
Movements on hedges of net investments	**-**	**-**	**-**	**0.5**	**-**	**-**	**0.5**	**-**	**0.5**
Movements on cash flow hedges	**-**	**-**	**-**	**0.5**	**-**	**-**	**0.5**	**-**	**0.5**
Actuarial gains on defined benefit pension schemes net of deferred tax	**-**	**-**	**-**	**-**	**-**	**1.8**	**1.8**	**-**	**1.8**
Total comprehensive income for the year	**-**	**-**	**-**	**1.0**	**(14.1)**	**61.3**	**48.2**	**(0.2)**	**48.0**
Acquired in the year/settlement of share options	**-**	**-**	**0.7**	**(0.8)**	**-**	**0.1**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**4.7**	**-**	**-**	**4.7**	**-**	**4.7**
Deferred tax on share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**	**-**	**0.3**
Dividends	**-**	**-**	**-**	**-**	**-**	**(49.0)**	**(49.0)**	**-**	**(49.0)**
31 December 2021	**33.1**	**177.1**	**(6.2)**	**137.5**	**23.8**	**319.4**	**684.7**	**0.7**	**685.4**

Included in other reserves is a capital redemption reserve of £129.8m (2020: £129.8m) and a share-based payments reserve of £4.7m (2020: £2.0m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2021: 775,962 (2020: 865,565) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes. Certain subsidiaries in the UK have taken an exemption to be audited.

Notes to the consolidated financial statements

Year ended 31 December 2021

1. Business and geographical segments

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

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

- ADE – Western Europe;
- ADE – North America;
- ADE – Emerging Markets;
- AGI – Western Europe;
- AGI – North America; and
- AGI – Emerging Markets.

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

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

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

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

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

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

Group	ADE 2020 £m	AGI 2020 £m	Central costs and eliminations 2020 £m	Consolidated 2020 £m
Revenue				
Total revenue	249.2	348.8	-	598.0
Result				
Headline operating profit prior to share-based payments and unallocated central costs	36.8	41.0	-	77.8
Share-based payments (including social charges)[1]	-	-	0.9	0.9
Unallocated central costs	-	-	(3.4)	(3.4)
Headline operating profit/(loss)	36.8	41.0	(2.5)	75.3
Amortisation of acquired intangible assets	(5.7)	(4.1)	-	(9.8)
Acquisition costs	(2.1)	-	-	(2.1)
Operating profit/(loss) prior to exceptional items	29.0	36.9	(2.5)	63.4
Exceptional items	(16.9)	(35.3)	(6.2)	(58.4)
Segment result	12.1	1.6	(8.7)	5.0
Finance income				0.2
Finance costs				(6.7)
Loss before taxation				(1.5)
Taxation				2.3
Profit for the year				0.8

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

Aerospace, Defence & Energy	Western Europe 2020 £m	North America 2020 £m	Emerging markets 2020 £m	Total ADE 2020 £m
Revenue				
Total revenue	103.1	143.3	2.8	249.2
Result				
Headline operating profit/(loss)	17.0	20.0	(0.2)	36.8
Amortisation of acquired intangible assets	-	(5.7)	-	(5.7)
Acquisition costs	-	(2.1)	-	(2.1)
Operating profit/(loss) prior to exceptional items	17.0	12.2	(0.2)	29.0
Exceptional items	(10.3)	(6.5)	(0.1)	(16.9)
Segment result	6.7	5.7	(0.3)	12.1

Automotive & General Industrial	Western Europe 2020 £m	North America 2020 £m	Emerging markets 2020 £m	Total AGI 2020 £m
Revenue				
Total revenue	203.7	83.5	61.6	348.8
Result				
Headline operating profit/(loss)	26.7	(0.4)	14.7	41.0
Amortisation of acquired intangible assets	(0.5)	(3.2)	(0.4)	(4.1)
Operating profit/(loss) prior to exceptional items	26.2	(3.6)	14.3	36.9
Exceptional items	(24.8)	(9.4)	(1.1)	(35.3)
Segment result	1.4	(13.0)	13.2	1.6

Other information

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

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

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

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

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

Geographical information

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

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

2. Operating profit

	2021	2020
	£m	£m
Revenue	**615.8**	598.0
Cost of sales	**(379.8)**	(401.3)
Gross profit	**236.0**	196.7
Other operating income	**3.8**	4.4
Distribution costs	**(17.4)**	(15.6)
Administration expenses	**(126.4)**	(109.0)
Other operating expenses	**(1.2)**	(1.2)
Headline operating profit	**94.8**	75.3
Amortisation of acquired intangible assets	**(10.3)**	(9.8)
Acquisition costs	**(0.7)**	(2.1)
Operating profit prior to exceptional items	**83.8**	63.4
Exceptional items (see note 3)	**-**	(58.4)
Operating profit	**83.8**	5.0

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

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

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

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

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

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

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

3. Exceptional items

	2021	2020
	£m	£m
Severance and redundancy (release)/costs	**(2.7)**	20.8
Impairment of assets	**5.5**	16.5
Site closure costs	**1.9**	12.0
Gains on sales of property, plant and equipment recognised in exceptional items	**(4.8)**	
Environmental provisions - see note 7	**0.1**	2.9
Total exceptional restructuring items	**-**	52.2
Impairment of other intangible assets	**-**	6.2
Total exceptional items	**-**	58.4

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

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

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

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

At 31 December 2021, £10.2m was held as provisions. Refer to note 7 for more information.

4. Taxation

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

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. The effect of changes in statutory tax rates reflects the impact on deferred tax balances of the increase in the future UK tax rate from 19.0% to 25.0% which will take effect from 1 April 2023 as per the Finance Act 2021. Consequently, the deferred tax balances on the consolidated balance sheet relating to the UK have been measured using these revised rates. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison in 2021 is 24.7% (2020: 24.1%).

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

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

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

1 Those costs in various jurisdictions are not deductible in calculating taxable profits.
2 2021 and 2020 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions.
3 The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £5.1m of interest deductions were restricted in the US in 2021 (2020: £9.9m).
4 Includes provisions for local tax risks and non-financing cross border transactions.

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £24.0m were recognised at 31 December 2021 (2020: £22.1m), of which £1.8m (2020: £5.4m) are expected to crystalise within 12 months. The provisions are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquires, and determining whether any possible liability is probable. The provisions relate to six main areas of tax risk, varying in quantum from £0.4m to £7.2m.

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

5. Dividends

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

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

The board approved the payment of an interim dividend for 2021 of 6.2p on 27 July 2021 to those shareholders on the register of Bodycote plc on 8 October 2021. The 2021 interim dividend was paid on 5 November 2021. The Board has proposed a 2021 final ordinary dividend of 13.8p per share to be paid on 3 June 2022 to shareholders on the register at close of business at 22 April 2022 subject to approval by shareholders at the Annual General Meeting. As the proposed dividend is subject to shareholder approval in 2022, it is not included as a liability in these financial statements.

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

6. Earnings per share

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

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

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

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

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

Headline earnings	**68.3**	52.9

	2021 Pence	2020 Pence
Headline earnings per share:		
Basic	**35.8**	27.8
Diluted[1]	**35.8**	27.8

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

7. Provisions

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

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

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

Exceptional restructuring

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

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

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

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

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

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

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

The Group provides for the costs of environmental remediation that have been identified at the time of plant closure if there is a probable outflow of economic resources identified, as part of acquisition due diligence, or in other circumstances where remediation by the Group is required and a probable outflow of economic resources is identified. This provision is reviewed annually to determine the best estimate of expenditure required to settle the identified obligations and is separated into restructuring environmental and environmental to identify separately environmental provisions relating to the restructuring programme from those arising in the ordinary course of business. The majority of cash outflows in respect of these liabilities are expected to occur within five years.

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

8. Acquisition of businesses

On 1 December 2021 the Group acquired 100% of the share capital of a new business in Western Europe, for total consideration of £8.2m. The acquisition was made to strengthen the Group’s network and service offering within the Group’s Western European business also complementing the Group’s Specialist Technologies strategy. The acquisition is not expected to have a material impact on net profit. The accounting is provisional as the Group has 12 months to finalise the valuation of the acquired assets and liabilities under IFRS 3. The transaction has been accounted for as a business combination under IFRS 3 as summarised below:

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

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

The gross contractual value of the trade and other receivables was £1.2m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £nil. The business contributed £0.6m revenue and £nil of headline operating profit for the period between the date of the acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, the acquisition would have contributed £7.7m to Group revenue and £0.1m to Group headline operating profit.

Acquisitions prior to 2021
On 3 April 2020 the Group completed the acquisition of 100% of the ordinary share capital of Ellison Surface Technologies (“Ellison“) for total consideration of £129.5m. Ellison is a Surface Technology business located in North America with a number of sites primarily serving the aerospace sector. The transaction was accounted for as a business combination under IFRS3. Deferred consideration was settled in US dollars which translated to £64.3m at the acquisition date. £0.6m of the deferred consideration was paid in October 2020 and the remaining deferred consideration of £57.8m was settled in April 2021 as per agreement with the seller. As the deferred consideration was settled in US dollars, the final settlement was subject to foreign exchange movements of £5.9m which is recorded within foreign exchange reserves in the financial statements. Further details of this acquisition can be found in the 2020 annual report and 2021 interim results.

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

9. Notes to the cash flow statement

	2021	2020
	£m	£m
Profit for the year	**60.0**	0.8
Adjustments for:		
Finance income	**(0.3)**	(0.2)
Finance costs	**6.6**	6.7
Taxation charge/(credit)	**17.5**	(2.3)
Operating profit	**83.8**	5.0
Adjustments for:		
Depreciation of property, plant and equipment recognised in operating profit	**58.0**	65.2
Depreciation on closed mothballed sites due to restructuring recognised in exceptional items	**0.6**	-
Depreciation of right-of-use assets	**13.6**	14.8
Amortisation of other intangible assets	**12.1**	11.9
(Profit)/loss on disposal of property, plant and equipment	**(4.8)**	0.6
Share-based payments	**4.7**	0.4
Income from associate prior to disposal	**(0.1)**	(0.2)
Loss on disposal of associate	**0.4**	-
Impairment of property, plant and equipment and other assets recognised in exceptional items	**5.5**	16.5
Impairment of property, plant and equipment and other assets recognised in operating profit	**-**	0.3
Impairment of other intangible assets recognised in exceptional items	**-**	6.2
EBITDA (see APM definition below)	**173.8**	120.7
(Increase)/decrease in inventories	**(2.7)**	2.1
(Increase)/decrease in receivables	**(1.6)**	35.6
Increase/(decrease) in payables	**1.9**	(35.1)
(Decrease)/increase in provisions	**(17.6)**	23.6
Cash generated by operations	**153.8**	146.9
Income taxes paid	**(9.5)**	(7.8)
Net cash from operating activities	**144.3**	139.1

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

10. Basis of preparation

The financial statements of the Group have been prepared in accordance UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards.

The Group has adopted Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB (IFRS IC). Individual standards and interpretations have to be adopted by the UK Endorsement Board (UKEB) before being applied in the UK. International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the UKEB and are therefore subject to change.

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

In preparing the consolidated financial statements management has considered the impact of climate change particularly in the context of the disclosures included in the Strategic Report section of the 2021 Annual report. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment nor on the viability of the Group.

11. Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2021 or 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 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.

Alternative performance measures (Unaudited)

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

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

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

Headline operating profit

	2021 **£m**	2020 £m
Operating profit	**83.8**	5.0

Add back:		
Amortisation of acquired intangibles	**10.3**	9.8
Acquisition costs	**0.7**	2.1
Exceptional items	**-**	58.4
Headline operating profit	**94.8**	75.3

Headline operating margin

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

Headline profit before taxation

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

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

	2021 **£m**	2020 £m
Operating profit	**83.8**	5.0
Depreciation and amortisation	**83.7**	91.9
Depreciation on closed mothballed sites due to restructuring recognised in exceptional items	**0.6**	
Impairment of property, plant and equipment and other assets - recognised in exceptional items	**5.5**	16.5
Impairment of property, plant and equipment and other assets - recognised in operating profit	**-**	0.3
Impairment of other intangible assets - recognised in exceptional items	**-**	6.2
(Profit)/loss on disposal of property, plant and equipment	**(4.8)**	0.6
Share-based payments	**4.7**	0.4
Income from associate prior to disposal	**(0.1)**	(0.2)
Loss on disposal of associate	**0.4**	
EBITDA	**173.8**	120.7
Acquisition costs	**0.7**	2.1
Exceptional items, excluding impairments	**(1.3)**	35.7
Share-based payments	**(4.7)**	(0.4)
Headline EBITDA	**168.5**	158.1
Headline EBITDA Margin	**27.4%**	26.4%

Organic sales

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

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

Headline operating cash flow

	2021	2020

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

Free cash flow

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

Headline operating cash conversion

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

Free cash flow conversion

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

Headline tax charge

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

Headline tax rate

	2021 **£m**	2020 £m
Headline tax charge	**19.7**	15.5
Headline profit before taxation	**88.5**	68.8
Headline tax rate	**22.3%**	22.5%

Headline earnings per share

A detailed reconciliation is provided in note 6.

Net debt and net debt plus lease liabilities

	2021 **£m**	2020 £m
Cash and bank balances	**39.3**	30.7
Bank overdrafts (included in borrowings)	**(1.4)**	(1.5)
Derivative financial instruments	**0.5**	-
Bank loans (included in borrowings)	**(90.3)**	(51.7)

Net debt	**(51.9)**	(22.5)
Lease liabilities	**(64.5)**	(75.6)
Net debt plus lease liabilities	**(116.4)**	(98.1)

Return on capital employed

Return on capital employed	**2021 £m**	2020 £m
Headline operating profit	**94.8**	75.3
Average capital employed[1]	**789.9**	770.5
Return on capital employed	**12.0%**	9.8%

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

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

	Year to 31 December 2021			
	ADE £m	**AGI £m**	**Central cost and eliminations £m**	**Consolidated £m**
Revenue	**245.6**	**370.2**	**-**	**615.8**
Constant exchange rates adjustment	**10.8**	**13.8**	**-**	**24.6**
Revenue at constant exchange rates	**256.4**	**384.0**	**-**	**640.4**
Headline operating profit	**44.2**	**69.5**	**(18.9)**	**94.8**
Constant exchange rates adjustment	**1.4**	**2.7**	**0.3**	**4.4**
Headline operating profit at constant exchange rates	**45.6**	**72.2**	**(18.6)**	**99.2**