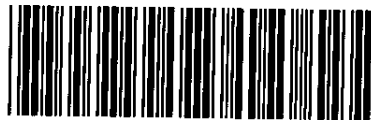


Copy parent accounts for Bodycote Finance
UK Limited 04800400

See page 136

annual report 2017

TUESDAY



A7BDC634

A07

31/07/2018

#59

COMPANIES HOUSE

At a glance

Operating an international network of facilities, Bodycote is the world's leading provider of thermal processing services.

Experienced in supporting large multinational customers and their supply chains, as well as local niche specialists, Bodycote provides a vital link in the manufacturing process for virtually every market sector including aerospace and defence, automotive, power generation, oil & gas, construction, medical and transportation.

Our structure

The Group operates 187 facilities around the world which are organised into customer focused divisions:

The ADE Divisions

(primarily focused on aerospace, defence and energy customers)

[Read more](#)
on page 18

The AGI Divisions

(primarily focused on automotive and general industrial customers)

[Read more](#)
on page 20

The core values underpinning everything we do

Honesty and Transparency

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

Respect and Responsibility

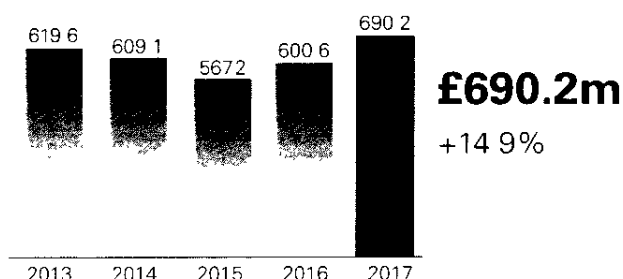
We manage our business with respect, applying an ethical approach to our dealings with those we interact with. We believe in taking ownership, and being mindful of the impact of our actions.

Creating Value

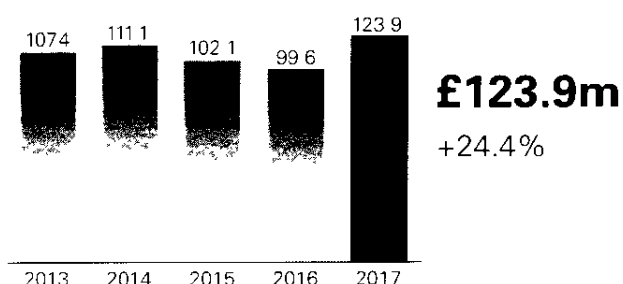
Creating value is the very essence of our business and needs to be the focus of our endeavours. We create value for our customers, our employees and our shareholders.

Revenue

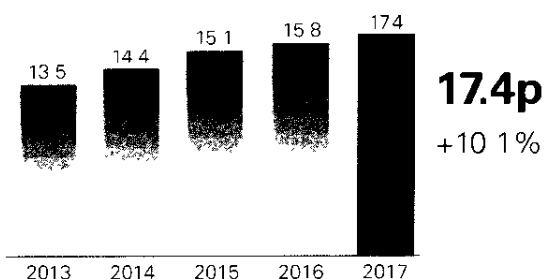
£m

**Headline operating profit**

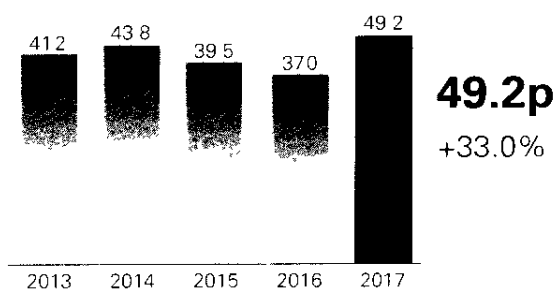
£m

**Dividend per share**

pence

**Headline earnings per share**

pence

**Strategic report**

- 02** Financial and operational highlights
- 03** Strategic report
- 04** Global network
- 06** Chairman's statement
- 08** Chief Executive's review
- 10** Business model
- 11** Strategy and objectives
- 12** Component journeys
- 15** Our technologies
- 16** Measuring progress
- 18** Business review – The ADE Divisions
- 20** Business review – The AGI Divisions
- 22** Chief Financial Officer's report
- 25** Principal risks and uncertainties
- 30** Corporate responsibility and sustainability

Governance

- 36** Board of Directors
- 38** Corporate governance statement
- 46** Directors' report
- 48** Report of the Nomination Committee
- 50** Report of the Audit Committee
- 54** Board report on remuneration
- 76** Directors' responsibilities statement

Financial statements

- 77** Independent auditor's report
- 85** Consolidated income statement
- 85** Consolidated statement of comprehensive income
- 86** Consolidated balance sheet
- 87** Consolidated cash flow statement
- 88** Consolidated statement of changes in equity
- 89** Group accounting policies
- 97** Notes to the consolidated financial statements
- 130** Five year summary
- 131** Company statement of financial position
- 132** Company statement of changes in equity
- 133** Company accounting policies
- 135** Notes to the company financial statements

Additional information

- 139** Subsidiary undertakings
- 142** Shareholder enquiries
- 144** Company information

Financial highlights

	2017	2016
Revenue	£690.2m	£600.6m
Headline operating profit ¹	£123.9m	£99.6m
Return on sales ²	18.0%	16.6%
Operating profit	£119.4m	£94.5m
Headline profit before taxation ¹	£121.5m	£97.0m
Profit before taxation	£117.0m	£91.9m
Net cash	£39.6m	£1.1m
Basic headline earnings per share ³	49.2p	37.0p
Basic earnings per share	51.0p	35.2p
Ordinary dividend per share	17.4p	15.8p
Special dividend per share	25.0p	-
Return on capital employed ⁴	19.3%	17.1%

Operational highlights

- Revenue growth of 14.9% to £690.2m, revenue growth at constant currency was 9.6%, well above the background market growth rates
- 24% growth in headline operating profit to £123.9m
- Return on sales improvement to 18.0% (2016: 16.6%)
- Basic headline EPS increased 33% to 49.2p
- ROCE increased to 19.3% (2016: 17.1%) notwithstanding the increased rate of capital investment
- Headline operating cash flow⁵ of £111.7m (2016: £91.4m)
- Headline operating cash conversion⁶ at 90%, £83.0m free cash flow⁷ (2016: £60.5m)
- Full year ordinary dividend 17.4p, up 10%, and special dividend 25.0p (2016: nil)

¹ Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.5m (2016: £4.5m) and acquisition costs of £nil (2016: £0.6m)

² Return on sales is defined as headline operating profit as a percentage of revenue

³ A detailed EPS reconciliation is provided in note 10 on page 107

⁴ Return on capital employed (ROCE) is defined as headline operating profit of £123.9m (2016: £99.6m) divided by the average of opening and closing capital employed of £642.5m (2016: £582.3m). Capital employed is defined as net assets adjusted for net cash/(debt)

⁵ Headline operating cash flow is defined as cash generated by operations of £182.8m (2016: £146.3m) less net capital expenditure of £74.8m (2016: £63.1m) and before cash flow relating to restructuring of £3.7m (2016: £76m) and acquisition costs of £nil (2016: £0.6m)

⁶ Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit

⁷ Free cash flow is defined as cash generated by operations of £182.8m (2016: £146.3m) less net capital expenditure of £74.8m (2016: £63.1m) and financing costs of £2.1m (2016: £2.3m) and taxation of £22.9m (2016: £20.4m)

Strategic report

The Group Strategic report provides a review of the business for the financial year and describes how we manage risks

The report outlines the developments and performance of the Group during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future

Key performance indicators are published to show the performance and position of the Group. Page 11 outlines the Group's strategy and objectives, along with the business model on page 10

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

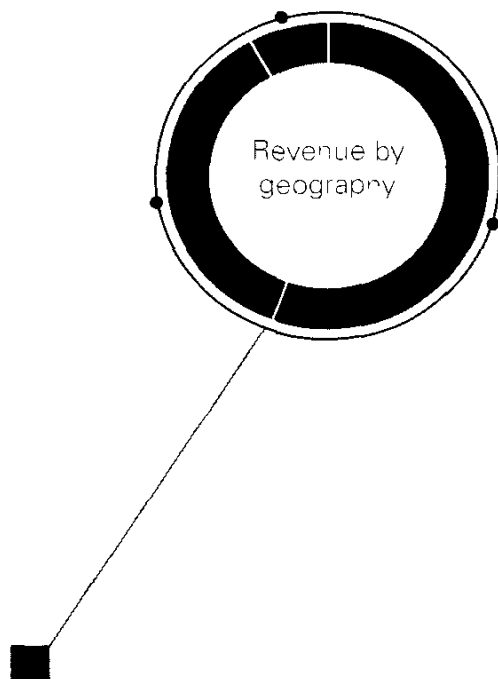
This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Bodycote plc and its subsidiary undertakings when viewed as a whole

The Strategic report discusses the following areas

- Global network
- Chairman's statement
- Chief Executive's review
- Business model
- Strategy and objectives
- Our technologies
- Measuring progress (key performance indicators)
- Business review – The ADE Divisions
- Business review – The AGI Divisions
- Chief Financial Officer's report
- Principal risks and uncertainties
- Corporate responsibility and sustainability

Global network

Bodycote is experienced in all major market sectors and is able to combine the capability and expertise of a network of 187 facilities to deliver global or local services for customers.



Group revenue by geography – £m

Western Europe	384.9
North America	251.2
Emerging markets	54.1
Total	690.2

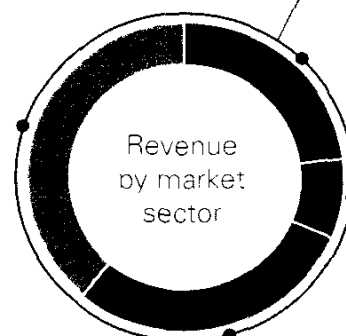
Overview

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

The network operates from 187 facilities, with customers able to benefit from Bodycote's comprehensive range of services from multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They recognise that if they were to broaden their manufacturing footprint, Bodycote would be able to assist them. They are aware that they can obtain the same process to the same quality standards from multiple locations.

Group revenue by market sector – £m

Aerospace and Defence	160.7
Energy	56.2
Automotive	205.2
General Industrial	268.1
Total	690.2



Such a large network brings economies of scale, with technology developed at one location being available globally if the market requires it. Similarly, network utilisation is enhanced by using logistics to put customers' work into the most effective facilities to meet their requirements.

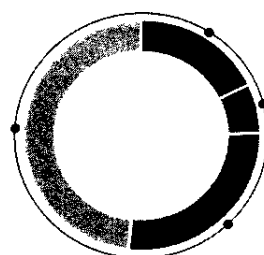
The Bodycote network has a wealth of technical accreditations, some industry or customer specific, others more general. Individual operations concentrate on the accreditations suited to their market.

Although Bodycote is a UK company, 92% of the Group's revenue is derived outside the UK. With facilities in 23 countries, Bodycote is truly global.

Western Europe



Bodycote operates 101 facilities in Western Europe and is the number one provider of thermal processing services, with by far the largest network and a comprehensive service offering



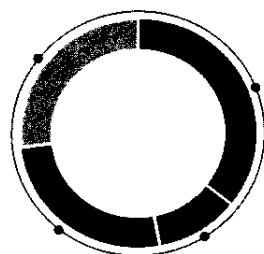
**Revenue by market sector – £m
Western Europe**

■ Aerospace and Defence	68.6
■ Energy	27.0
■ Automotive	103.9
■ General Industrial	185.4
Total	384.9

North America



Bodycote is the largest provider of thermal processing services in North America by a significant margin, with a comprehensive network coverage. This network offers 59 facilities convenient to customers in all areas where manufacturing and technical industries are concentrated



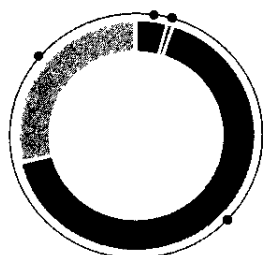
**Revenue by market sector – £m
North America**

■ Aerospace and Defence	89.7
■ Energy	28.8
■ Automotive	65.5
■ General Industrial	67.2
Total	251.2

Emerging Markets



Bodycote has 27 facilities in Emerging Markets covering Eastern Europe, China and Mexico. Bodycote is the number one thermal processing provider in Eastern Europe and is the leading Western provider in China



**Revenue by market sector – £m
Emerging Markets**

■ Aerospace and Defence	2.4
■ Energy	0.4
■ Automotive	35.8
■ General Industrial	15.5
Total	54.1

Chairman's statement

"One of the key roles of the Chairman is to ensure that the Board members possess a range of complementary skills which are relevant to Bodycote's business. I have spent time with all of my Board colleagues and am confident that I have joined a well-balanced Board that, in terms of governance, is functioning effectively."

A. C. Quinn CBE
Chairman

I am pleased to be contributing to the annual report for the first time as Bodycote's Chairman, having taken up the position on 1 January 2018

Overview

The Group delivered a good set of results for 2017 and I am very pleased that the management team, under the leadership of Stephen Harris, has been able to demonstrate the strength and strong market position of Bodycote's business once again

Dividend

The Board is proposing a final dividend of 12 1p, an increase of 12%, which will be paid on 1 June 2018, subject to shareholder approval at the 2018 Annual General Meeting (AGM). This brings the total ordinary dividend for 2017 to 174p (2016: 158p) costing £33.1m, which represents a year-on-year increase of 10.1%. This increase in the level of dividend underscores the Board's view of the Group's excellent future earnings and cash flow potential

Furthermore, recognising the strong net cash position of the Group at year end, the Board is recommending a supplemental distribution by way of a special dividend, also payable on 1 June 2018, amounting to 25.0p per share, costing £47.9m

Board and governance

My predecessor, Alan Thomson, stepped down as Chairman at the end of 2017. On behalf of the Board, and the Company as a whole, I thank Alan for his significant contribution to Bodycote during his ten years of Chairmanship and previously as a Non-Executive Board member. I think that it is fair to say that Bodycote has undergone a wholesale transformation during Alan's tenure as Chairman and the development of the Group's share price over that period is a testament to the progress that has been made

One of the key roles of the Chairman is to ensure that the Board members possess a range of complementary skills which are relevant to Bodycote's business. I have spent time with all of my Board colleagues and am confident that I have joined a well-balanced Board that, in terms of governance, is functioning effectively

The Board has been further strengthened by the appointment of Lili Chahbazi, who joined as a Non-Executive Director on 1 January 2018. Lili is an experienced strategy consultant and, since 2008, a global partner in the London office of Bain & Company. Lili currently heads the oil & gas practice and consults to a range of international clients. Lili brings a wide range of experience in businesses including those in the engineering, aviation and transport industries.

Another one of the key responsibilities of the Chairman is to promote effective governance across the Group, thus ensuring that we remain a successful and sustainable entity with good governance procedures practised across all 23 countries in which the Group operates. We are committed to conducting business responsibly. By maintaining high standards of corporate governance, we enhance performance underpinned by our business model. Our approach to governance is set by the Board, and our Executive Committee ensures that the approach is effectively implemented across the business. Effective and robust governance remains central to the ongoing success of the Group.

People

As part of my induction to the business, I have had the chance to visit a good number of facilities, as well as to engage with much of the Group's senior executive management. I have been impressed by the commitment, knowledge and passion that I have experienced from employees across the business, and at all levels. I can see how the talented workforce creates a clear competitive advantage for Bodycote, which is so vital for the long-term success of the business.

Shareholders

During the year, as usual, meetings were undertaken with a number of Bodycote's shareholders and positive feedback was received from them. I have already had the opportunity to meet some of our shareholders and look forward to meeting more of you during the coming year, as well as at this year's AGM in May 2018.

Summary

The Group is starting to show the results of the increased investment programme that has been ongoing for the last few years. This programme has been designed to generate superior growth in what until recently has been a weak macroeconomic environment. The results of these investments, together with the continued diligence in operational efficiency and a more benign macro environment all combined to deliver another good set of results for the Group in 2017. Bodycote remains well placed to capitalise on the value generating investments available to it and the prospects for the Group are excellent. I am confident that in the coming years Bodycote will deliver an attractive return for our shareholders and commensurate reward for our employees.

A.C. Quinn CBE

Chairman
6 March 2018

Chief Executive's review

"2017 has once again demonstrated the quality of Bodycote's business. The Group's revenue growth, combined with continued discipline on costs, helped lift headline operating profit by 24%. Return on sales increased to 18.0% from 16.6%."

S. C. Harris
Group Chief Executive

Overview

Bodycote reported revenue growth of 14.9% to £690.2m (2016 £600.6m), with revenue benefiting from foreign exchange translation gain. At constant currency, revenues grew 9.6%, including a contribution of 2.9% from acquisitions completed in 2016.

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

General industrial markets returned to growth after a multi-year negative trend. Moreover, this growth was broad-based, with improvements in general industrial demand occurring in all of our served geographies. Group revenues generated from the general industrial sectors, which represent some 39% of our business, grew 10%, which was well above the growth in background demand. Of this growth, 4 percentage points came from acquisitions made in 2016. The remainder of the Group's outperformance in general industrial versus the market came from the increased penetration of Specialist Technologies (which grew 14% in this sector), as well as an element of some customer restocking.

The decision we took to preserve the capacity at our Texas/Oklahoma facilities is being well rewarded, as we have also seen a reversal of the sharp declines that we had experienced in onshore oil & gas demand. Growth in onshore oil & gas saw a strong sequential increase in 2017, driven predominantly by demand from unconventional drilling activity in the Permian Basin. In the rest of the energy sector, subsea revenues continued to decline and large-frame industrial gas turbines (IGT) are also in retreat following cutbacks at the original equipment manufacturers (OEMs). It is worth noting, however, that requests for quotation in the subsea sector have picked up considerably. In total, revenues from the energy sector increased by 4%.

Civil aviation grew 6% with our UK operations continuing to add significant business. This increase will require new facilities to be built in 2018 in the UK in order to service forecast demand. North America also started to contribute to the growth in a more meaningful way as the build rate of LEAP engines continues to grow. Bodycote has a much stronger position on the LEAP series than it did on the previous CFM56, which is a testament to the success of the focused sales and investment programme that has been undertaken over the last decade.

The automotive business saw growth of 14% with the majority of this increase coming from the car and light truck sector. This compares to background demand growth in Europe of low single digits and a slight decline in the USA. Our strong performance benefited from the contribution from the acquisitions made in 2016, together with the investments we have made in Emerging Markets and Specialist Technologies.

In our Specialist Technologies, we achieved double-digit revenue growth across our Specialty Stainless Steel Processes (S³P), low pressure carburising (LPC) and Corri-Dur® (CiD) technologies. However, several factors dragged on overall sales growth during the year. The HIP Product Fabrication (HIP PF) and Surface Technology businesses are focused largely on oil & gas outside of the USA, with particular emphasis on subsea and these revenues continued to decline. In addition, the weakness in IGT volumes resulted in a slowdown in the HIP Services business towards the end of the year. Also impacting our HIP Services business was an unplanned outage during the second half (which was fully resolved by year end). Forecast growth in all the Specialist Technologies looks strong.

The five sites we acquired in 2016 are performing well. They are all Classical Heat Treatment sites within the AGI division and contributed £23.0m of revenue in 2017, with return on sales in line with the Group. It is also worth highlighting that revenues at these facilities have accelerated since coming into the Group as a result of the benefits derived from being part of the Group's network of facilities.

With careful cost discipline in the face of growing revenues, the Group's headline operating profit grew 24% to £123.9m (26% growth in statutory operating profit to £119.4m) and the return on sales improved to 18.0% (2016: 16.6%). Once again, we increased our prices ahead of cost inflation. This is an area of heightened focus for the Group especially as we are entering a period of higher input cost inflation in some markets. It is worth noting, however, that Bodycote typically performs well in higher inflationary environments.

The Group's strong profit improvement, coupled with a headline tax rate of 22.9% (2016: 27.5%), increased basic headline earnings per share to 49.2p (2016: 37.0p). Basic earnings per share increased to 51.0p from 35.2p.

The return on capital employed rose in the current year to 19.3% from 17.1% in 2016.

Free cash flow increased to £83.0m (2016: £60.5m) as a result of our improved profitability and in spite of increased capital expenditure to support the future growth of the business. Headline operating cash conversion was, once again, above 90%, yielding a net cash position at the end of the year of £39.6m (2016: £1.1m).

Strategic progress

The Group's strategy encompasses the drive for operational efficiency and improvement in return on sales, growth in markets with higher long term structural growth, the expansion of the Group's footprint in rapid growth markets, the focus on revenue growth in Specialist Technologies, and growth through targeted acquisitions, where these are more attractive than investing in new facilities. The Group has a minimum 20% hurdle rate return when looking at investments.

During 2017 we made further progress against our strategy, delivering higher Group return on sales of 18.0%. We believe there is still the opportunity to further improve from both management led initiatives, particularly in our AGI division, and growth in our higher return Specialist Technologies.

In 2017 we continued to invest in areas with superior growth potential, with a deliberate bias towards investments in rapid-growth markets, Specialist Technologies, and long-cycle programmes, particularly in civil aviation. Emerging Markets revenues increased 26% to £54.1m, representing 8% of Group turnover, with growth in Mexico and China both above 40%. We will continue to invest to support the future of our business in these rapid growth markets. During the year, we commissioned several new LPC and S³P lines. In HIP Services we acquired the HIP assets from Doncasters Group Limited's UK business and a new mega-HIP was ordered for Europe which will come online in 2018. Further new facilities are expected to be commissioned in 2018 for both Specialist Technologies and Classical Heat Treatment in our focus geographies and markets. The additional capacity that will come on stream in 2018 will add to our ability to deliver strong growth and superior return on sales over the coming years.

We also continue to look at acquisition and investment opportunities that will grow our business. These are traditionally small bolt-on facilities that can provide us with infills to our existing network. Where opportunities to buy such facilities do not exist, we will build new facilities, these obviously have a ramp-up period, but have the advantage of being designed exactly in line with the Group's technology and operational efficiency focus. Since 2014 we have invested £164m in both acquisitions and investment for growth in new and existing facilities, with revenues from the latter still ramping up as these plants typically take 3–5 years to reach full production.

Organisation and people

Bodycote is a service business, and first-class service is delivered by passionate and professional people, who understand their customers' needs and meet their demanding requirements time and time again. We will continue to invest in training and developing our employees to ensure that our talented workforce remains one of our competitive advantages.

Summary and outlook

2017 has once again demonstrated the quality of Bodycote's business. Strong growth was achieved through contributions from contract wins on automotive and aerospace programmes, excellent growth in Emerging Markets (where our investments are yielding good returns), and broad-based growth across the general industrial sectors, an element of which was due to some customer restocking.

The Group's revenue growth, combined with continued discipline on costs, helped lift headline operating profit by 24%. Return on sales increased to 18.0% from 16.6%.

To ensure that the business continues to deliver good results, we will continue to focus on efficiency, maintaining price discipline in light of increasing inflation across many economies, and the execution of our successful strategy.

Our business, by its nature, has limited forward visibility, but we have entered the year with good momentum. Accordingly, and in spite of the foreign exchange headwind at current exchange rates, 2018 has started in line with our expectations.

S.C. Harris

Group Chief Executive
6 March 2018

Business model

Provider of essential services to engineering manufacturers

Classical Heat Treatment

- Working to very exacting quality specifications, heat treatment uses precisely controlled furnaces to process a huge variety of metals and alloys, improving their material properties
- Bodycote's Classical Heat Treatments describe a group of mature heat treatment processes and includes metal joining technologies which are used to join and assemble parts

- Virtually every type of metal component, whatever its application, has received some form of processing before its introduction to service to enable it to perform to the required standard and last longer

Specialist Technologies

- Bodycote's Specialist Technologies refer to a group of processes which require very specialist expertise and technology. These technologies, some of which are proprietary, offer unique solutions for a variety of applications



The global leader

Customer focus

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

Global network

- Bodycote's global network of 187 market-focused facilities (see pages 4 and 5) in 23 countries brings economies of scale, particularly for logistics and equipment utilisation. This makes Bodycote's processing inherently more efficient than customers' in-house operations (see page 34) and competitors, thereby enhancing our competitive position in the subcontract market
- The capital intensive nature of Bodycote's business also provides significant barriers to entry. The scope of Bodycote's network enables us to specialise more effectively than competitors at individual locations and provides comprehensive backup for our customers

Transferable know-how

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



The supplier of choice

Service

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

Quality

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

Expertise

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



Creating value

For customers

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

For Bodycote

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

For investors

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

Strategy and objectives

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

Divisional customer focus

Organising our technologies and resources to align with the global and local requirements of the market sectors in which our customers operate and providing the highest levels of customer service in terms of quality, delivery, reliability and technical problem solving

Technology

Providing thermal processing services that are a vital link in the manufacturing supply chain, and value-adding and proprietary specialist technologies which offer unique solutions for a variety of applications

Strategic elements

Our key strategies, focusing on customer alignment and leadership in our areas of technology and service, are underwritten by our supporting strategies

The ADE Divisions

Serving the aerospace, defence and energy customers, with a focused network of globally coordinated facilities, attuned to these customers' specific needs and requirements

The AGI Divisions

Serving the automotive and general industrial customers through a regionally organised business, catering to these customers' specific local or regional needs and proximity requirements

Classical Heat Treatments

Serving industries' needs for essential classical heat treatment services, ensuring metals and alloys are fit for purpose

Specialist Technologies

Capitalising on our specialist technologies to provide our customers with the ability to create innovative, differentiated products

- HIP Services
- HIP Product Fabrication
- Surface Technology

- Low Pressure Carburising (LPC)
- Specialty Stainless Steel Processes (S³P)
- Corr-I-Dur[®] (CiD)

Emerging markets

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

Operational improvement

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

Acquisitions

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

Safety & environment

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

Our progress measured – KPIs (for further details see pages 16 and 17)

Component journeys

HIGH ROLLER – A COMPONENT JOURNEY

AEROSPACE BEARINGS

Ball and roller bearings are essential to high-precision rotary components in aircraft, and need to deliver exceptional durability and consistent performance despite changes in temperature and air pressure. Materials used are customised based on the end application, including high temperature, stainless steels and more exotic alloys, such as Inconel.

Bearings are shaped and machined from rods of metal plates and wires.

■ After heat treatment, the masking is removed and the surface cleaned before inspection to ensure the part meets strict aerospace quality specifications.

■ The surface area to be heat treated is prepared – areas which are not to be heat treated are selectively masked with copper plating.

■ The surface is hardened via a specialised nitriding process during which nitrogen is diffused into the surface to increase resistance to in-service stress and fatigue.

For the perfect shape and smooth finish, bearings are put through final lapping and polishing processes.

BODYCOTE COMPONENT JOURNEYS

This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services our customers need.

For more component journeys visit www.bodycote.com

End applications include landing gear, engine, control surfaces, and other parts or components.

■ Denotes the parts of the component journey undertaken by Bodycote

INNER STRENGTH – A COMPONENT JOURNEY

MEDICAL IMPLANTS

The stress on a hip or knee joint when a person jumps off a chair is equal to around 100 tonnes per square inch. Our bones, effectively composites, absorb such stresses regularly and effectively for much of our lifetime. When joints fail, they are often replaced with metal alloy implants. These implants must be incredibly strong, biocompatible, and able to last the lifetime of the patient. A combination of heat treatment, hot isostatic pressing and coating makes this possible.

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

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

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

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

BODYCOTE COMPONENT JOURNEYS

This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services our customers need.

For more component journeys visit www.bodycote.com

■ Denotes the parts of the component journey undertaken by Bodycote

End application – joint replacement.

IN GEAR - A COMPONENT JOURNEY

PINION GEAR

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

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

The gears begin life as low alloy steel

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

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

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

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

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

The gears are assembled into the transmission unit

BODYCOTE COMPONENT JOURNEYS

This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services our customers need.

For more component journeys visit www.bodycote.com

End application – automobile.

■ Denotes the parts of the component journey undertaken by Bodycote



14 Bodycote plc

Our technologies

Specialist Technologies

A set of differentiated processes giving customers the ability to produce unique high value-adding products

HIP	Hot Isostatic Pressing Services (HIP) Impact resistance and fatigue properties are extremely sensitive to small amounts of porosity. Through the simultaneous application of heat and pressure, the HIP process eliminates internal porosity, improving fatigue strength, tensile ductility and fracture toughness.
HIP PF	Hot Isostatic Pressing Product Fabrication (HIP PF) This method combines the HIP process with design and production expertise to create a component from metal powder. The flexibility of the HIP PF process means that combinations of materials can be used to give desired properties, enabling metallic compositions that are difficult or impossible to forge or cast.
S³P	Specialty Stainless Steel Processes (S³P) Steel is often chosen for its inherent corrosion resistance, but often requires hardening. Standard heat treatments will harden the steel, but can negatively impact the corrosion resistance. S ³ P technology uniquely hardens stainless steel, nickel-based alloys and cobalt-chromium alloys, improving mechanical and wear properties without adversely affecting corrosion resistance.
LPC	Low Pressure Carburising (LPC) A case hardening process used to obtain a hardened surface and tough core, giving increased wear resistance and fatigue life, with minimal risk of treatment distortion. LPC is a clean process, carried out under vacuum, and is an environmentally friendly treatment.
CiD	Corr-I-Dur® (CiD) A proprietary thermochemical treatment for the simultaneous improvement of corrosion and wear resistance through the generation of a nitride-oxide combination layer. Corr-I-Dur® is an environmentally friendly alternative to the use of hard chromium, electroless nickel and other galvanic coatings.
ST	Surface Technology (ST) ST incorporates specialised plasma spray, High Velocity Oxygen Fuel (HVOF) and thermo-chemically formed coatings to improve wear resistance, hardness and durability, and is able to surface engineer components designed to operate in the most demanding of industrial applications.

Classical Heat Treatment

A group of mature processes which are essential for treating all metal components. These tightly controlled processes condition the material properties including both the core properties and the surface characteristics.

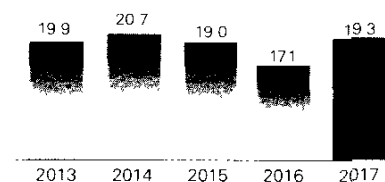
Below are a few examples of material properties obtained by heat treatment.

Surface hardness	What is it? The ability of a material to resist deformation, scratching and indentation under force. Why is it important? Improving a material's hardness through heat treatment allows it to resist various types of wear.
Toughness	What is it? The ability of a material to absorb energy and plastically deform without fracture. Why is it important? Heat treatment can be used to strengthen the material and help improve its resistance to impact.
Fatigue strength	What is it? The stress level at which component failure occurs when subjected to repeated stress cycles. Why is it important? Part failure due to fatigue can have catastrophic consequences, particularly if the part is safety critical. Through heat treatment, a material's fatigue strength is improved.
Creep resistance	What is it? The measure of a material's ability to resist high temperature deformation. Why is it important? Some metals and alloys must operate at temperatures close to their melting point. Heat treatment enables them to perform at higher temperatures with little or no movement.
Core ductility	What is it? The ability of a material to deform without breaking. Why is it important? In order to form or shape a complex component good ductility is required. Heat treatment is used to soften the material which makes it easy to work as part of the manufacturing process.

Measuring progress

Return on capital employed

(%)



Performance

Return on capital employed increased by 2.2 percentage points during the year, from 17.1% to 19.3%

Headline operating profit increased by 24.4% from £99.6m to £123.9m, while average capital employed increased by 10.3% to £642.5m

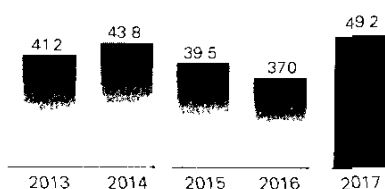
Definition

Headline operating profit as a percentage of the average of opening and closing capital employed as adjusted for certain items of goodwill written off

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

Headline earnings per share

(pence)



Performance

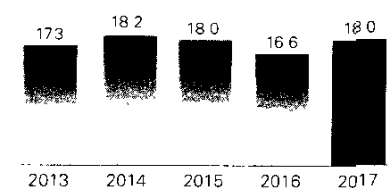
Headline earnings per share increased by 12.2 pence (33.0%) during the year, from 37.0 pence to 49.2 pence

Definition

Headline earnings per share is defined in note 10 to the financial statements

Return on sales

(%)



Performance

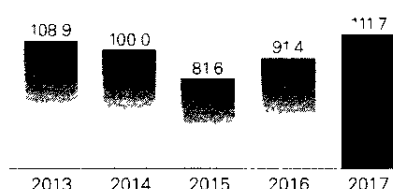
Return on sales increased by 1.4 percentage points during the year, from 16.6% to 18.0%

Headline operating profit increased by 24.4% from £99.6m to £123.9m, while revenue increased by 14.9% from £600.6m to £690.2m

Definition

Headline operating profit as a percentage of revenue

Headline operating cash flow (£m)



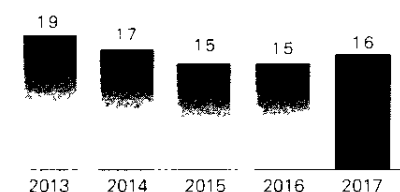
Performance

Headline operating cash flow for the Group was £111.7m (2016: £91.4m). This was 90% of headline operating profit (2016: 92%).

Definition

Headline operating cash flow stated before cash flow relating to restructuring of £3.7m (2016: £7.6m) and acquisition costs of £nil (2016: £0.6m).

Accident frequency (number)



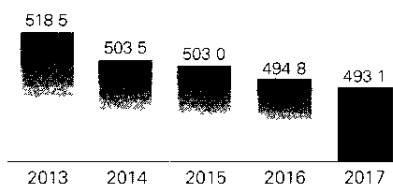
Performance

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for everyone who works at or visits our locations. The accident frequency rate has increased to 16 in the year (2016: 15). Further details are included in the Corporate responsibility and sustainability section on page 34.

Definition

Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

Carbon footprint (tonne CO₂e/£m sales)



Performance

On a normalised basis, the carbon footprint decreased by 0.3% from 494.8 tonnes per £m sales to 493.1 tonnes per £m sales. Further details are included in the Corporate responsibility and sustainability section on page 35.

Definition

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

CO₂ equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by the International Energy Agency (IEA). Normalised emissions statistics restate prior year figures using current year country specific conversion (IEA) factors and current year average exchange rates.

Business review

The ADE Divisions

Efficient and durable

Honeycomb seals

Honeycomb, a structure borrowed from nature, provides an excellent strength to weight ratio when used in manufacturing applications. In aircraft engines, honeycomb seals are critical to the efficiency of gas flow through the engine, and to providing a sacrificial wear surface, protecting turbine blades as they respond to high operational temperatures. This double role performed by the honeycomb seal results in better fuel efficiency and longer service life of turbine blades. To join the honeycomb seals, a form of metal joining, called brazing, is used. Bodycote has decades of experience providing this complex and specialised service.

For further information about our services
go to www.bodycote.com/services



The ADE Divisions

Bodycote has more than 180 facilities around the world which are organised into customer focused divisions, the ADE divisions and the AGI divisions. Our ADE customers tend to think and operate globally and our ADE divisions are organised globally as a result.

A large number of Bodycote's multinational customers fall within our ADE divisions and Bodycote intends to continue to leverage its unique market position to increase revenues in the aerospace, defence and energy sectors. We have 63 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.

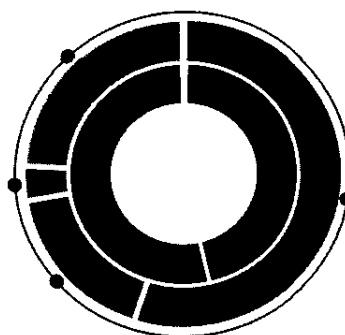
Revenue in 2017 was £273.1m, an increase of 4.7% (8.8% at actual rates), including a contribution of 0.8 percentage points to the growth from new facility investments. Civil aviation growth was underpinned by a strong UK performance. It was also notable that growth in North American civil aviation revenues picked up through the year. The revenues from onshore oil & gas in North America increased sequentially through the year. These two factors helped the ADE divisions achieve revenue growth of 72% in the second half of 2017 against 2.1% in the first half.

Headline operating profit¹ was £64.2m, an increase of 11% (15% at actual rates), benefiting from positive operational leverage as revenues grew. Accordingly, return on sales improved to 23.5% (2016: 22.2%). Statutory operating profit grew to £62.7m (2016: £54.1m).

Net capital expenditure in 2017 was £32.1m (2016: £19.9m), representing 1.5 times depreciation. In addition to the new mega-HIP acquired for our European business, our new aerospace facility in Poland opened in 2017 and we commenced investment in a new UK facility to support our growing UK civil aviation business.

Return on capital employed increased to 21.4% (2016: 19.7%), reflecting the improved profitability and careful management of the balance sheet.

ADE revenue by market sector and geography £m



Market sector

■ Aerospace and Defence	150.5
■ Energy	47.0
■ Automotive	9.8
■ General Industrial	65.8
Total	273.1

Geography

■ Western Europe	126.0
■ North America	145.7
■ Emerging Markets	1.4
Total	273.1

¹ Headline operating profit is reconciled to operating profit in note 2 to the financial statements. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2 to the financial statements).

Business review

The AGI Divisions

Steering success

Ball studs

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

For further information about our services
go to www.bodycote.com/services



The AGI Divisions

Bodycote has more than 180 facilities around the world which are organised into customer focused divisions, the ADE divisions and the AGI divisions. Our AGI customers include many multinational businesses which tend to operate on a regionally-focused basis, as well as numerous medium sized and smaller businesses, and all of which are important to Bodycote. Much of the business is locally oriented and the business is, therefore, organised on a regional basis.

Our extensive network of more than 120 AGI facilities enables the business to offer the widest range of technical capability and security of supply, while continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of servicing this division's wide-ranging customer base.

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

Revenue was £417.1m, 13.1% ahead of the prior year (19.3% at actual rates), including a contribution of 2.1 percentage points to the growth from investments in new facilities and 5.0 percentage points from the plants acquired in 2016.

Growth in Western European revenues underpinned the divisions' growth, with double-digit growth in its automotive revenues and solid growth in the General Industrial business.

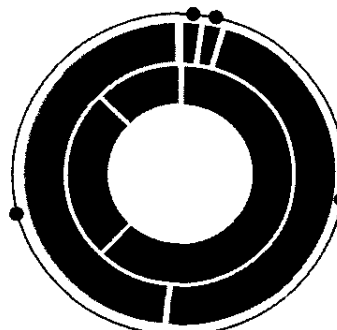
Emerging Markets' revenues also grew very strongly and now represent 13% of Bodycote's AGI business. Mexico and China both achieved revenue growth above 40%.

Headline operating profit¹ was £74.2m (2016: £58.5m), 20% ahead of the prior period (27% at actual rates). Return on sales expansion has been a focus for our AGI business over many years now, and at 17.8% we delivered return on sales improvement once again (2016: 16.7%). Statutory operating profit grew to £71.2m (2016: £54.9m).

Net capital expenditure was £37.8m (2016: £37.4m), representing 1.0 times depreciation. We are continuing to invest in the rapid growth Emerging Markets, with investments in Mexico, China, Turkey and Poland contributing the majority of the growth from new facilities. We also made further investment in S³P as the strong growth in demand for the technology requires us to continue to add more capacity.

Return on capital employed increased to 17.8% (2016: 15.2%), reflecting the strong improvement in profitability and is the highest return that we have seen since these divisions were created.

AGI revenue by market sector and geography £m



Market sector

■ Aerospace and Defence	10.1
■ Energy	9.2
■ Automotive	195.4
■ General Industrial	202.4
Total	417.1

Geography

■ Western Europe	258.9
■ North America	105.5
■ Emerging Markets	52.7
Total	417.1

¹ Headline operating profit is reconciled to operating profit in note 2 to the financial statements. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2 to the financial statements).

Chief Financial Officer's report

Financial overview

	2017 £m	2016 £m
Revenue	690.2	600.6
Headline operating profit	123.9	99.6
Amortisation of acquired intangible fixed assets	(4.5)	(4.5)
Operating profit prior to exceptional items	119.4	95.1
Acquisition costs	–	(0.6)
Operating profit	119.4	94.5
Net finance charge	(2.4)	(2.6)
Profit before taxation	117.0	91.9
Taxation	(19.7)	(24.9)
Profit for the year	97.3	67.0

Group revenue was £690.2m, an increase of 14.9% at actual exchange rates, and 9.6% at constant currency. Acquisitions made in 2016 contributed 2.9% of the constant currency growth, with new facilities contributing a further 1.5%.

Headline operating profit for the year increased by 24% to £123.9m (2016: £99.6m), and return on sales increased to 18.0% (2016: 16.6%). Headline operating profit at constant currency increased by £18.0m, with the five acquired sites in 2016 contributing £3.0m to the improved headline operating profit. Price increases more than covered the increase in input costs. Statutory operating profit grew to £119.4m (2016: £94.5m).

Finance charge

The net finance charge was £2.4m compared to £2.6m in 2016, analysed as follows

	2017 £m	2016 £m
Interest received on bank overdrafts and loans	0.1	–
Net interest payable ¹	0.1	0.2
Financing and bank charges	2.0	2.1
Pension finance charge	0.4	0.3
Total finance charge	2.5	2.6
Net finance charge	2.4	2.6

¹ Amounts arising on financial liabilities measured at amortised cost

As at 31 December 2017, the Group's £230m Revolving Credit Facility is totally undrawn. Having extended the facility during the year, it has a remaining life of 4.3 years.

Profit before Taxation

	2017 £m	2016 £m
Headline profit before taxation	121.5	97.0
Amortisation of intangibles	(4.5)	(4.5)
Acquisition costs	–	(0.6)
Profit before taxation	117.0	91.9

Statutory profit before tax increased to £117.0m (2016: £91.9m), while headline profit before tax increased 25% to £121.5m (2016: £97.0m).

Tax

The passing of the Tax Cuts and Jobs Act in the US in December 2017 resulted in a significant £6.4m net one-off tax gain, as the Group's US deferred tax liabilities were revalued as a result of the reduction in the US Federal corporate income tax rate. Accordingly, the Group's tax rate is significantly lower, at 17.0%. The Group's headline tax rate for the year excludes this gain and is, therefore, somewhat higher at 22.9%.

The final impact of the changes from the US Tax Cuts and Jobs Act are subject to a number of detailed provisions in the legislation and any implementation guidance issued by the Treasury Department and the IRS. Bodycote will continue to monitor any developments and give due consideration to the impact of any guidance, along with ongoing market interpretation and assessment on the accounting implications of this Act.

Earnings per Share

The improved Group business performance drove basic headline earnings per share up to 49.2p (2016: 37.0p), while basic earnings per share for the year increased to 51.0p (2016: 35.2p).

	2017 £m	2016 £m
Profit before taxation	117.0	91.9
Taxation	(19.7)	(24.9)
Profit for the year	97.3	67.0
Basic headline EPS	49.2p	37.0p
Basic EPS	51.0p	35.2p

Return on Capital Employed (ROCE)

The return on capital employed rose in the current year to 19.3% from 17.1% in 2016. This improvement was driven by the increase in the Group's operating profit. Moreover, since 2014, the Group has invested £125m in growth investment projects, many of which are not yet fully mature and are not contributing as fully to Group returns as they will once they have all reached financial maturity. The Group continues to exert strong financial discipline in the area of capital expenditure as well as in the profit and loss account, applying stringent financial returns hurdles to all of its projects.

Cash Flow

	2017 £m	2016 £m
Headline operating profit	123.9	99.6
Add back non-cash items		
Depreciation and amortisation	59.8	55.2
Impairment of fixed assets	0.4	5.1
Share-based payments	7.8	0.5
Profit on disposal of property, plant and equipment	(0.7)	(4.5)
Headline EBITDA ²	191.2	155.9
Net capital expenditure	(74.8)	(63.1)
Net working capital movement	(4.7)	(1.4)
Headline operating cash flow	111.7	91.4
Cash cost of restructuring	(3.7)	(7.6)
Acquisition costs	–	(0.6)
Operating cash flow	108.0	83.2
Interest paid	(2.1)	(2.3)
Taxation	(22.9)	(20.4)
Free cash flow	83.0	60.5
Acquisition spend	(14.2)	(23.7)
Disposals	–	2.2
Dividends	(30.6)	(48.1)
Other	0.3	0.2
Increase/(decrease) in net cash	38.5	(8.9)
Opening net cash	1.1	12.3
Loans acquired with subsidiaries	–	(2.3)
Increase/(decrease) in net cash	38.5	(8.9)
Closing net cash	39.6	1.1

² Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of fixed assets, profit or loss on disposal of property, plant and equipment and exceptional items.

The Group's headline operating cash flow increased by 22% to £111.7m, mainly reflecting the improvement in the operating profit. Statutory net cash from operating activities increased 27% to £159.9m. Headline operating cash conversion was 90% as the Group continues to demonstrate an impressive record of converting profit into cash. Consequently, free cash flow increased 37% to £83.0m and the Group ended 2017 with £39.6m of net cash (2016: £1.1m).

Chief Financial Officer's report continued

Capital Expenditure

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £74.8m (2016: £63.1m). The multiple of net capital expenditure to depreciation was 1.3 times (2016: 1.1 times). The Group continues to invest in maintaining its assets to a high quality. More importantly with regard to future revenue growth of the business, half of the capital expenditure was on growth investment projects, including investment in incremental capacity for Specialist Technologies (notably HIP Services, S3P and LPC), expenditure on several new facilities, and investments in capacity and technology expansion in a number of existing locations.

Acquisitions

In December, Bodycote completed the acquisition of the HIP assets and vacuum furnaces from Doncasters Group Limited's UK facility for consideration of £8.7m.

Deferred consideration payments from acquisitions completed in 2016 increased the cash outflow on acquisitions to £14.2m in the year.

Dividend and Dividend Policy

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

The Board has recommended a final ordinary dividend of 12.1p (2016: 10.8p), bringing the total ordinary dividend to 17.4p (2016: 15.8p). In addition, in light of the Group's strong balance sheet and year end net cash position, the Board has recommended a special dividend of 25.0p (2016: nil). If approved by shareholders, both the final ordinary dividend and the special dividend will be paid on 1 June 2018 to shareholders on the register at the close of business on 20 April 2018.

Borrowing Facilities

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

The total undrawn committed facility funding available to the Group at 31 December 2017 was £230.0m (2016: £225m). At 31 December 2017, the Group had the following drawings and headroom under the committed facility:

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

Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

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 and free cash flow, together with current measures restated at constant currency, to allow the 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.

Going concern

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

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

The committed facilities as at 31 December 2017 were as follows:

- £230m Revolving Credit Facility maturing 3 April 2022

The December 2017 weighted average life of the committed facilities was 4.3 years.

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

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

D. Yates

Chief Financial Officer
6 March 2018

Principal risks and uncertainties

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

The Group Head of Risk is supported by the Risk and SHE Committee, which met three times during 2017, attended by senior managers from each of the operating divisions and the Group Head of SHE. The Risk and SHE Committee assists the Group Head of Risk in identifying critical risks, embedding risk management and facilitating the implementation of risk management measures throughout the Group. The Group Head of Risk provides an update to the Audit Committee on the Group's risk activities at every meeting and a comprehensive review of the Group's business critical risks is presented to the Board in June and December. The Board concluded that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2017 and a robust assessment of the principal risks had been undertaken.

The table below highlights the major risks that may affect Bodycote's ability to deliver the strategy, as laid out on page 11. These risks have been reviewed throughout the year and two new risks have been added since 2016, Environment and Capital Projects. The inclusion of the Environment risk reflects increasing regulatory intervention and a level of uncertainty in a number of jurisdictions in which Bodycote operates. The inclusion of the Capital Projects risk reflects the Group's continued investments of significant amounts of capital to grow the business and these projects can be highly complex and rely upon factors outside the Group's control.

In determining the principal risks the Board once again considered the result of the 2016 referendum on the future of the UK's membership in the European Union. The Board does not expect this will have a material impact on Bodycote as customers are served locally and cross-border trading is minimal and this therefore remains as an element of the existing market risk.

Details of the Group's financial risks (funding, foreign exchange, interest rate and counterparty risks), which are managed by the Group's treasury function, are provided in note 18 to the financial statements. The mitigating activities described below will help to reduce the impact or likelihood of the major risk occurring, although the Board recognises that it will not be possible to eliminate these risks entirely. The Board recognises that there could be risks that may be unknown or that may be judged to be insignificant at present but may later prove to be significant. For this reason business continuity plans have been prepared for all plants to provide for situations where specific risks have the potential to severely impact the business.

Risk description	Impact	Mitigation and control	Relevance to strategy
Market and customer risks			
Markets Bodycote operates in 23 countries and a substantial amount of sales are closely linked to the economic cycle and the general macroeconomic environment. The result of the referendum on the future of the UK's membership in the European Union is not expected to have a material transactional impact as customers are typically served locally and cross-border trading is minimal.	Stable The high proportion of short-term fixed costs in the business means that a drop in sales will have a significant impact on profitability. Sales in the markets served by the AGI businesses (69% of the total Group) tend to develop in line with or ahead of the economic cycle, whereas aerospace and defence sales (23%) tend to track behind the economic cycle. Sales to the energy sectors (8%) are closely linked to energy prices, which in turn can be affected by general economic activity.	<ul style="list-style-type: none"> ■ Bodycote's presence in 23 countries across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility. ■ There is some short-term flexibility in the cost base e.g. by ensuring that a proportion of the workforce is employed on temporary contracts. ■ Changes in customer demand on a local or a Group-wide level are responded to quickly. 	
Loss of key customers Bodycote benefits from many long-term relationships with key customers and the damage to, or loss of, any of these relationships would be detrimental to the Group.	Stable The loss of a key customer could adversely affect the Group's financial results and the viability of one or more of Bodycote's facilities.	<ul style="list-style-type: none"> ■ There is no significant customer dependency, with the Group's top ten customers accounting for less than 17% of sales and the balance made up by many thousands of customers. ■ There is a continued focus on customer service and quality processes to maintain excellent relationships with major customers. Key account management is in place and customer satisfaction is monitored. 	

Principal risks and uncertainties continued

Risk description	Impact	Mitigation and control	Relevance to strategy
Market and customer risks continued			
Competitor action The entry of competitors into one or more of the Group's Specialist Technologies	Stable The erosion of market share resulting in loss of revenue and profit	<ul style="list-style-type: none"> ■ The close control of proprietary knowledge ■ Rapid increase in the scale of the Group's offerings to maintain the position as supplier of choice 	
Corporate and community risks			
Safety and health The nature of Bodycote's activities presents safety and health risks	Stable Bodycote is committed to providing a safe work environment for its employees but Bodycote's operations, if not properly managed, could have a significant impact on individual employees. Furthermore, poor safety and health practices could lead to disruption of business, financial penalties and loss of reputation	<ul style="list-style-type: none"> ■ Group-wide health and safety policies set by the Group Chief Executive ■ OHSAS 18001 and ISO 14001 compliant SHE management systems being used by Group Head of Safety, Health and Environment with support of divisional safety, health and environmental teams ■ Programme in place to focus on reduction of incidents which could have a high impact ■ Safety compliance audits at all plants at least every two years ■ Oversight of safety and health framework provided by the Group Risk and SHE Committee 	
Environment Actual or potential environmental contamination could lead to health risks, disruption of business, financial costs and loss of reputation	Increasing Bodycote is committed to providing the highest level of protection to the environment. Environmental regulators in many jurisdictions in which Bodycote operate can impose obligations on Bodycote to investigate potential contamination and remediate where required	<ul style="list-style-type: none"> ■ Environmental procedures and measures in place conforming to ISO 14001 (2017 87% of plants) ■ Environmental due diligence of businesses for acquisition ■ Remediation of contaminated sites or additional emission abatement as required by local legislation 	

Risk description	Impact	Mitigation and control	Relevance to strategy
Operational risks			
<p>Service quality</p> <p>The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time</p>	<p>Increasing</p> <p>Deterioration in quality or service levels can cause serious long-term damage to Bodycote's reputation with financial consequences such as the loss of a customer and the cost of damages or litigation. Work that is released into use which is not in compliance with specification could arise as a result of system or human failure.</p> <p>The Automotive ISO technical specification 16949 has recently undergone major revision and is being replaced by IATF 16949 (IATF being the International Automotive Task Force). The new standard requires additional work, for example additional quality inspections.</p>	<ul style="list-style-type: none"> ■ Bodycote has stringent quality systems in place managed by qualified staff ■ Quality systems and processes operated at plant level with oversight by divisional quality teams ■ Where necessary, plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and IATF 16949 ■ All plants subjected to internal and external quality audits and inspections at least once a year 	
<p>Major disruption at a facility</p> <p>Bodycote's business processes are inherently risky and there is a possibility that a major fire such as that suffered in 2016 at the Huntington Park facility (USA) or utility outage could lead to closure of a facility's operation. In addition a number of sites are exposed to natural hazards, such as earthquakes, flooding and storms.</p>	<p>Stable</p> <p>Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.</p>	<ul style="list-style-type: none"> ■ Bodycote has a global network of 187 facilities. These facilities create a framework to provide back-up capability for affected facilities. ■ Business continuity plans are in place for all plants. These are updated and tested annually. This process has been subject to a Board risk deep dive in 2017. ■ Independent insurer inspections to assess hazard and business interruption risks. ■ Insurance cover, including business interruption cover. ■ Scheduled equipment maintenance and inspections. 	
<p>Capital projects</p> <p>The Group invests capital in developing existing plants as well as into Greenfield developments and acquisitions.</p>	<p>Increasing</p> <p>Capital projects can be highly complex and rely on factors outside of the Group's control. This may cause projects to be delivered late or at a higher cost than forecast. Market conditions may also change making a project less profitable than initially projected.</p>	<ul style="list-style-type: none"> ■ There is a well established capital investment approval process that applies to all major capital projects. ■ Project Management frameworks are in place to deliver projects on time and on cost. ■ All major projects are subject to post implementation reviews. ■ Capital project risk will be subject to Internal Audit review in 2018. 	

Principal risks and uncertainties continued

Risk description	Impact	Mitigation and control	Relevance to strategy
Operational risks continued			
Information Technology The efficient operation of the Group relies upon the continued development and operation of its IT systems. Bodycote is currently undergoing a Group wide implementation of an ERP system.	Stable Failure to protect the Group's IT systems from cyber threats, or to maintain and upgrade the Group's ERP system, could result in significant disruption and expense to the business.	<ul style="list-style-type: none"> ■ Project approval and progress subject to regular Executive Committee and Board review ■ Project teams made up of skilled subject matter experts supplemented with third party advisers ■ Best practice project management processes in place with assurance provided by third parties ■ Defined disaster recovery planning and data backup procedures 	
Regulatory risks			
Regulatory and legislative compliance The global nature of Bodycote's operations means that the Group has to comply with a wide range of local and international legislative requirements, including anti-bribery and anti-competition legislation, taxation legislation, employment law and import and export controls.	Stable Failure to comply with legislation could lead to substantial financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation.	<ul style="list-style-type: none"> ■ Business processes are supported by HR policies and the Group Code of Conduct alongside training and awareness programmes ■ The "Open Door Line" whistle-blower facility which is managed by a third party ■ Engagement of local specialists to support Bodycote at local, divisional and Group level ■ Regular audit of the effectiveness of implemented procedures 	

Viability statement

In preparing this statement of viability, the directors have considered the prospects of the Group over the three year period immediately following the 2017 financial year. This longer term assessment process supports the Board's statements on both viability, as set out below, and going concern (on page 24). A three year period was determined as it is a reasonable period over which the business could be restructured in the event that any material changes to demand for the Group's services transpired. As a result, the Board determined that a period of longer than three years would not be meaningful for the purpose of concluding on longer term viability.

The forecast used considers metrics which enable assessment of the Group's key performance indicators (including return on capital employed, headline earnings per share and headline operating cash flow) in addition to net debt, liquidity and financing requirements.

In conducting the review of the Group's prospects the directors assessed the three year plan alongside the Group's current position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 3 to 35). This assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency and was mindful of the limited forward visibility that the Group has as it carries no order backlog. The directors' viability assessment included a review of the sensitivity analysis performed on the three year plan, whereby the principal risks were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe. Examples of scenarios reviewed were:

- A decrease in forecast revenue of similar magnitude to the largest year-on-year decrease suffered in the last ten years
- A 10% decrease in revenue, debtor days and sterling strengthening to reflect an economic downturn

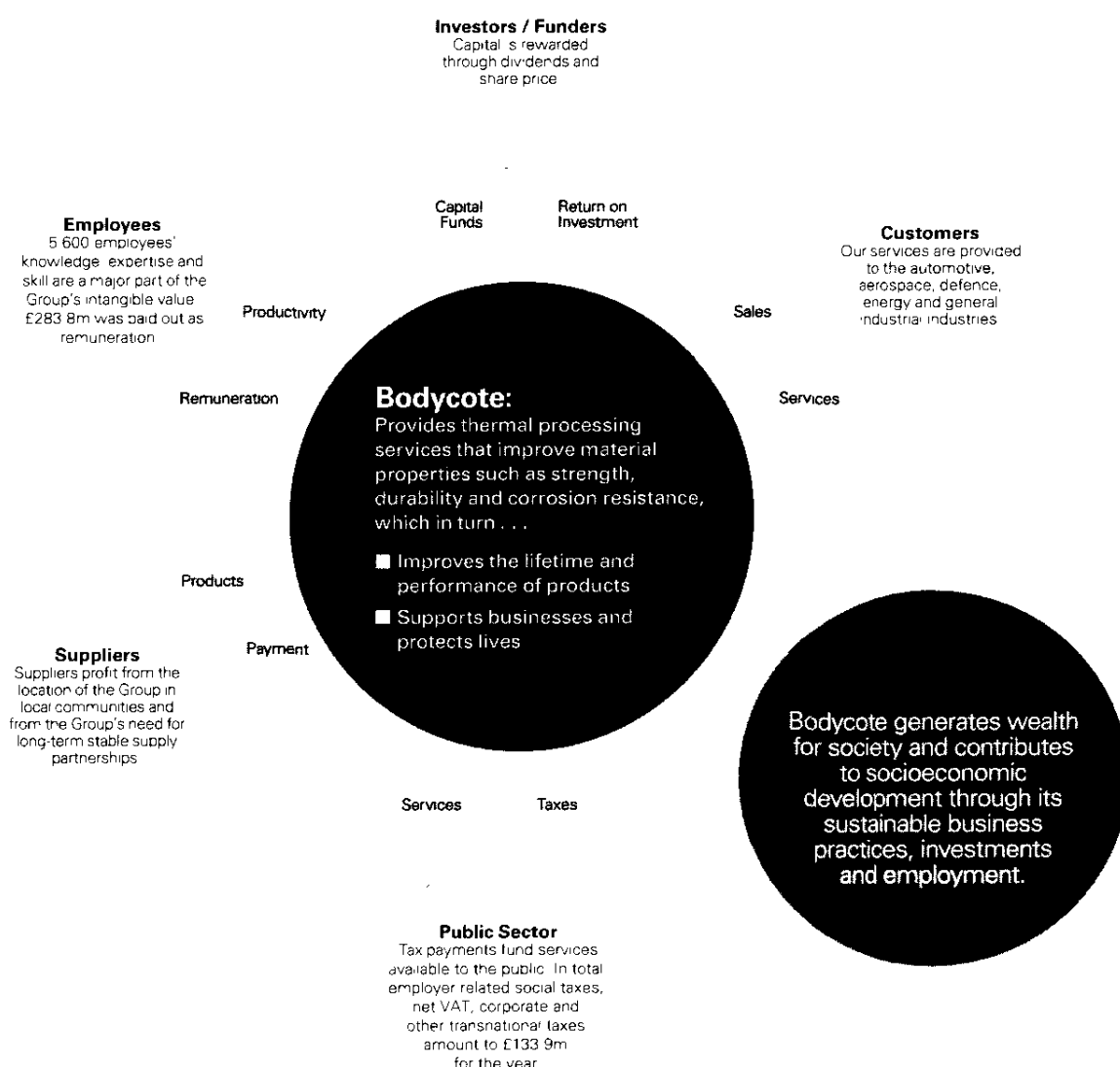
In making this viability statement the directors considered the mitigating actions that are taken by the Group in the event that the principal risks of the company become realised. The directors also took into consideration the Group's financial position at 31 December 2017, with net cash of £40m, available committed facility headroom of £230m and a history of strong cash generation.

The directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

Corporate responsibility and sustainability

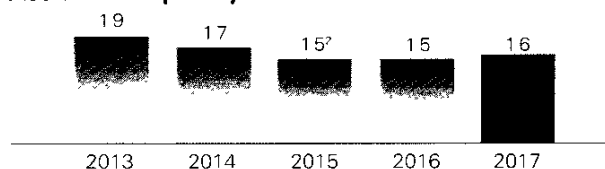
As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

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



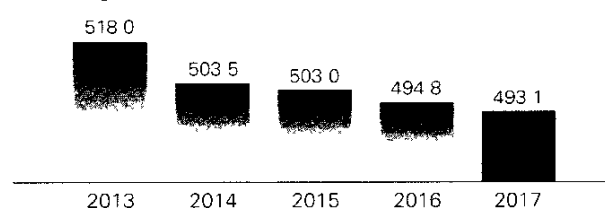
Corporate responsibility and sustainability continued

Accident frequency¹



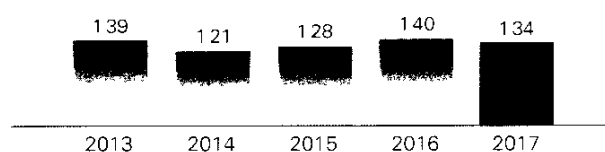
Carbon footprint³

(tonne CO₂e/£m sales normalised⁴)



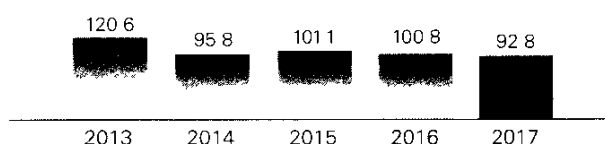
Water consumption

(thousand m³/£m sales normalised⁴)



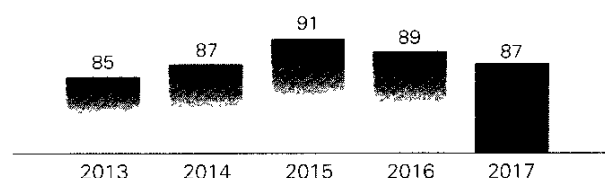
Chlorinated solvents

(kg/£m sales normalised⁴)



ISO 14001 accredited facilities

(%)



¹ Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked

² Note the rate for 2015 has increased from 14, as previously reported last year, to 15, due to restated data from one site

³ CO₂e is carbon dioxide equivalent, which represents the CO₂ release due to our energy usage

⁴ Normalised statistics restate prior year figures using current year IEA carbon conversion factors and current year average exchange rates

Our approach

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

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

Our people

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

Bodycote invests in the training and development of its people both at local and Group level. At a local level the Group is committed to providing the appropriate skills and technical training which will allow its employees to operate effectively and safely in their roles and deliver excellent customer service. At Group level a number of initiatives are currently being rolled out to drive excellence in management.

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

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

Female representation on our Board during 2017 was 17% (2016: 17%) and at manager level it is 26% (2016: 25%). Females represent 19% (2016: 18%) of our total workforce. As of 1 January 2018 we have increased female representation on the Board to 43%.

	Male	Female	Total	Male	Female	Total
Directors	5	1	6	83%	17%	100%
Managers	52	18	70	74%	26%	100%
Other staff	4,545	1,070	5,615	81%	19%	100%
	4,602	1,089	5,691	81%	19%	100%

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

Our Core Values are straightforward and are as follows:

Honesty and Transparency

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

Respect and Responsibility

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

Creating Value

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

Human rights

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

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

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

The Modern Slavery Act

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

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

The Anti-Slavery and Human Trafficking statement was reviewed by our Board of Directors in September 2017 and was published on our website. The statement will be reviewed on an annual basis.

Customers and suppliers

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

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

Community

Bodycote seeks to play a positive role in the local communities in which it operates by providing employment opportunities, and building goodwill and a reputation as a good neighbour and employer.

Responsible business ethics

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

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

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

Our Open Door Policy has been translated into all languages used throughout the Group. The policy allows employees to report their concern confidentially, verbally or in writing, to an independent third party provider, ensuring anonymity. Reports are transcribed and sent to the Group Head of Risk, who then determines the appropriate steps for the matter to be addressed.

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

Corporate responsibility and sustainability continued

Operational SHE performance

Bodycote is committed to continual 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 to deliver consistently high performance across all aspects of SHE management.

Safety and health

The nature of the Group's operations is such that employees are inevitably exposed to hazards in the workplace. Bodycote aims to manage these hazards and thereby minimise risks to employees through the deployment of robust safety control systems and procedures, and seeks to establish these at all sites.

Bodycote's online incident reporting and SHE management tool has been operational since 2013. This has enabled more consistent and thorough reporting of workplace injuries, near misses and unsafe conditions. Following the implementation, there was an increase in the lost time injury rate frequency (LTI rate) in 2013 as sites were better able to record and report incidents. In 2017, the LTI rate increased from 15 to 16. Bodycote continues to devote significant resource and management focus on safety with the number of "Opportunities for Improvement" (OFIs) reported by employees having increased by 478% across the Group. This improvement demonstrates stronger engagement of employees in proactively raising safety issues and rectifying potential safety issues before they might lead to an injury. Accidents, though regrettable and unacceptable, represent learning opportunities. This is the reason that accurate reporting is an essential part of building a robust safety management system.

Accident frequency (lost time injury rate)

Accident frequency is defined as the number of lost time accidents \times 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

In addition to encouraging the reporting of work related injuries, Bodycote has sought to encourage the reporting of near misses and unsafe conditions. This has worked well since the introduction of the new global incident reporting system in 2013 and a common near miss/unsafe condition reporting system at every operational site. This much improved reporting of incidents permits us to address hazards before injury occurs. As our database continues to develop we will be able to analyse and prioritise our safety action programmes more effectively. The most frequent cause of

lost time incidents is related to manual handling of parts and lifting operations and has a number of underlying causes. This is currently the subject of a Group wide review and will be a focus for risk reduction activities over the next few years.

All reportable incidents and lost time injuries are reviewed during executive management meetings and Board meetings. In addition, the executive management team reviews incidents which did not result in injury but were considered to have been serious or to have had a high potential impact. All serious incidents and high potential incidents are also reviewed by the Group SHE Committee and are cascaded within the business as appropriate to ensure that preventive actions are taken. This system was further strengthened in 2015 with actions being tracked via the online incident management system.

Environment

A proactive approach to improving energy efficiency means that Bodycote has implemented a variety of systems to reduce water and gas consumption, and to re-use heat energy. The ongoing effort to lessen the impact on the environment has resulted in Bodycote seeking ISO 14001 accreditation at all of its facilities.

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

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

Whilst thermal processing is an energy-intensive business, it is a vital part of the manufacturing supply chain and its use saves the energy it consumes many times over.

Greenhouse gas emissions

	2017		2016		2016 (normalised†)	
	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio ^{††} (tCO ₂ e/£m)	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio ^{††} (tCO ₂ e/£m)	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio ^{††} (tCO ₂ e/£m)
Scope 1	150.3	217.9	137.5	229.1	137.7	218.5
Scope 2	189.8	275.2	184.0	306.5	174.1	276.3
Statutory total*	340.1	493.1	321.5	535.6	311.8	494.8

* Statutory carbon reporting disclosures required by Companies Act 2006

† Normalised statistics restate prior year emissions using current year IEA carbon conversion factors and current year average exchange rates

†† Emissions per £m of turnover

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 financial control consolidation approach has been used to report the above data. This method aligns with the reporting scope in the financial statements. The Group collects electricity and natural gas usage information from each facility on a monthly basis. The Group then applies the International Energy Agency (IEA) published national carbon conversion factors to calculate the total tonnage of CO₂e produced. Group operational management actively monitors their monthly CO₂e emissions reported and the Group's Executive Committee reviews the level of CO₂e emissions on a monthly basis.

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

ISO 14001 accredited facilities

Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps to minimise the risk of adverse environmental effects at Bodycote's sites. At the end of 2017, 87% of our operating facilities had achieved ISO 14001 accreditation (2016: 89%). The slight reduction is due to the closure of a number of existing certified sites and the acquisition and construction of new sites which have yet to attain ISO 14001. Operational plants which have not yet received accreditation to the standard are working towards it.

Carbon footprint and water consumption

The absolute energy usage increased by 5.8%. At constant exchange rates, it increased by 9.1%.

The total CO₂e emissions per £m sales in 2017 were 493.1 t (2016 as previously reported 535.6 t, normalised† 494.8 t).

The Group's total CO₂e emission data is based on Scope 1 and Scope 2 emissions, as defined by the UK Government's DEFRA, and data relating to this has been calculated to include country-specific electricity conversion factors. In previous years this has been supplied by DEFRA directly. However, as of January 2017 DEFRA no longer supplies these conversion factors for non-UK companies. This has now been sourced by the Group directly from the International Energy Agency (IEA). There are some significant differences in these conversion factors. As a result all previous years have now been restated using IEA conversion factors to ensure that year-on-year comparisons are consistent.

On a normalised† basis, water usage per £m sales decreased by 4.3%. On a non-normalised basis, water usage per £m showed a decrease of 9.1%.

In 2015 our EU based operational sites reviewed their operations to ensure compliance with the Energy Efficiency Directive 2012/27/EU. This Directive is transposed into local legislation and requires sites to monitor their energy usage and assess energy reduction opportunities which are in addition to the ongoing energy saving activities on sites. One mechanism for ensuring compliance is for sites to become certified to ISO 50001 Energy Management Systems Standard. This enables sites to measure energy usage consistently and target the most effective ways of reducing energy usage. Our sites in Germany, Austria, Denmark and the Netherlands are largely already certified and working on further energy management programmes.

Bodycote uses established systems to develop best practice at specific sites and across the wider Group. Examples of 2017 projects undertaken across Bodycote sites are discussed below.

The continued replacement of traditional lighting with LED for environmental and improved safety has resulted in further CO₂ reductions. Our sites at Sprockhovel, Otterfing, Esslingen, Kornthal, Wehingen, Gothenburg and Warsaw will benefit from projected total savings of 192.4 t CO₂ annually.

At the Ludenscheid plant the second phase of a heat recovery project will save a further 171.6 t CO₂ each year in addition to the 69.1 t from phase 1. At Langenfeld 133.6 t CO₂ savings will be achieved from new furnace insulation.

A new heat exchange system in Gothenburg for both cooling water and process ventilation has resulted in 10.6 t CO₂ savings and means that no additional energy is required to heat the production area and the main offices.

Meanwhile in Denmark our Ejby plant will reduce CO₂ emissions by 60.3 t through the new air coolers. These replace evaporative water cooling towers and, in addition to the energy savings, eliminate the potential risk of Legionella and associated chemical treatment.

In addition to process efficiency improvements some sites have upgraded the building fabric to improve energy efficiency. At our Haag site a project to replace windows and improve insulation resulted in a 10 t per annum saving of CO₂ emissions.

Since 2013 Bodycote has submitted data on CO₂ usage to the Carbon Disclosure Project, one of the leading carbon reporting and verification bodies. Each year the Company has improved its standing in the league tables and is now a "C" relative to general business groups and is rated significantly higher on verification of data.

Chlorinated solvent use

The use of chlorinated solvents in Bodycote's thermal processing activities has been reduced in recent years as aqueous degreasing facilities have been introduced. In 2017, the normalised† solvent use showed a further decrease of 8.0% compared with the previous year.

Cautionary statement

The Strategic report has been prepared solely to provide information to shareholders to assess how the directors have performed their duty to promote the success of the Group.

The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Approval

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

S.C. Harris

Group Chief Executive
6 March 2018

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

Board of Directors

Executive Directors

Stephen Harris
GROUP CHIEF EXECUTIVE

APPOINTED
November 2008



External roles

Non-Executive Director, Chair of Sustainable Development Committee and Chair of Social and Ethics Committee for Mondi plc

Background

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

Qualifications

Chartered Engineer, graduated from Cambridge University, Masters degree in business administration from the University of Chicago, Booth School of Business

Skills and experience

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

Dominique Yates
CHIEF FINANCIAL OFFICER

APPOINTED
November 2016



External roles

None

Background

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

Qualifications

Chartered Accountant, graduated from Bristol University in Economics and Accounting

Skills and experience

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

Anne Quinn CBE
CHAIRMAN

APPOINTED
January 2013



External roles

Non-Executive Director and Remuneration Committee Chairman of Smitas Group plc since 2009

Background

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

Qualifications

B Com University of Auckland and MSC Management Sciences, Massachusetts Institute of Technology

Skills and experience

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

Ian Duncan
SENIOR INDEPENDENT DIRECTOR

APPOINTED
November 2014



External roles

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

Background

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

Qualifications

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

Skills and experience

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

KEY TO COMMITTEES

External roles
 Executive Director
 Non-Executive Director
 Chairman
 Committee Chair

Eva Lindqvist

NON-EXECUTIVE DIRECTOR

APPOINTED
June 2012



External roles

Non-Executive Director of Assa Abloy AB* since 2008, Sweco AB and Caverion Oy* since 2013, ComHem Holding AB from 2014, Alimak Holding* since 2015, Mr Green & Co AB since 2016 and Keller Group plc since 2017

Fast facts

Began her career in various positions with Ericsson working in Continental Europe, North America and Asia from 1981 to 1990 followed by director roles with Ericsson from 1993 to 1999. Joined TeliaSonera in 2000 as Senior Vice President moving to Xelerated initially as Chairperson and later as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013, Blekinge Institute of Technology from 2010 to 2013, Tieto Corporation from 2010 to 2016 and Micronic Mydata AB from 2013 to 2016

*Eva will retire from Caverion Oy in March 2018, from Assa Abloy AB in April 2018 and from Alimak Holding in May 2018

Qualifications

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

Industry experience

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

Pat Larmon

NON-EXECUTIVE DIRECTOR

APPOINTED
September 2016



External roles

Non-Executive Director of Huttig Building Products Inc., a NASDAQ listed international distributor of construction products since 2015. Chief Executive Officer, North America, of Bunzl plc since 2004, joining the Bunzl plc board in 2005

Fast facts

Was Executive Vice President and owner of Packaging Products Corporation until 1990 when the company was acquired by Bunzl plc. Held various senior management positions for over 13 years before becoming President of Bunzl's North America business in 2003

Qualifications

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

Industry experience

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

Lili Chahbazi

NON-EXECUTIVE DIRECTOR

APPOINTED
January 2018



External roles

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

Fast facts

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

Qualifications

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

Industry experience

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

Ute Ball

GROUP COMPANY SECRETARY

Registered office

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

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

Registered Number
519057 England and Wales

Corporate governance statement

Chairman's message

Dear Shareholders

I am pleased to introduce the Group's corporate governance report on behalf of our Board of Directors. The Corporate governance statement provides an insight into how the Board operated during the year and the key issues considered. We are committed to conducting business responsibly. By maintaining high standards of corporate governance we enhance performance underpinned by our business model. Our approach to governance is set by the Board and our Executive Committee ensures that the approach is effectively implemented across the business. Effective and robust governance remains central to the ongoing success of the Group.

The main Group-wide governance documents are our Core Values and the Code of Conduct, which set out the values and standards that we expect of our employees. These documents, together with our policies, govern how we conduct our business and set the standards that drive performance. Compliance training helps to enforce this. Board oversight, reviews and audits form part of the monitoring and supervision process. Risk processes are embedded and reviewed on an ongoing basis across the business. The important governance developments at Bodycote over the last year are detailed in the governance reporting section below.

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

I encourage all shareholders to attend the AGM, which will be held at our Macclesfield head office on 30 May 2018. This event provides an excellent opportunity to meet the executive and independent non-executive directors.

A.C. Quinn

Chairman

Board performance

2017 key actions	2017 achievements	Priorities for 2018
■ Implement actions from the 2016 strategy review	■ Undertook 2017 strategy review	■ Undertake 2018 strategy review
■ Continued focus on management development and succession planning	■ The Board and management reviewed management resources during the year	■ Continue succession planning and management development
■ Smooth transition following handover of the Chief Financial Officer role from D Landless to D Yates and search for a new Non-Executive Director and Chairman	■ A.C. Quinn was appointed as Non-Executive Director and Chairman effective 1 January 2018 and L. Chahbazi was appointed as Non-Executive Director also effective 1 January 2018	■ Smooth transition following handover of the Chairman role from A.M. Thomson to A.C. Quinn
■ Continued emphasis on external Board training and development	■ The Board visited plants in France and the USA during the year and developed the directors' understanding of these businesses and the markets they serve	■ Use Board visits to meet the operating teams to promote understanding of markets and the opportunities they offer
■ Continued review of the risk register, including major programme risks	■ During the year the Board reviewed the different elements of the Group's risk management framework and how it discharged its responsibilities	■ The Board will continue to review cyber security protection, the management of risk in major programmes and crisis management

Governance reporting

Board diversity

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

We appointed A C Quinn on 1 January 2018 as part of our Board refreshment replacing A M Thomson, who retired on 31 December 2017 as Chairman of the Board. L Chahbazi was appointed Non-executive director effective 1 January 2018. The Board currently comprises two executive directors, four non-executive directors and a non-executive chairman.

As of 2018 female representation on our Board is 43%, 2017 17% (2016 17%). At manager level it is 26% (2016 25%). Females represent 19% (2016 18%) of our total workforce. Whilst we are above the 33% by 2020 voluntary target recommended by the Hampton-Alexander review, we continue to believe it is difficult to set targets or timescales for increasing the proportion of women, or any other minority group, on our Board and do not propose to do so. We will increase female and/or other minority representation on the Board if appropriate candidates are available when Board vacancies arise.

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

Board evaluation

Following the external Board Evaluation in 2015, the Board agreed to undertake an internal evaluation in 2017. To ensure that all aspects of good governance are covered by the review, the Group Company Secretary distributed a tailored questionnaire to each member of the Board. Questions were framed under the following seven topics:

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

At a meeting of the Nomination Committee in September 2017, the directors assessed the conclusions reached and are in the process of implementing a number of recommendations. Additional emphasis will be placed on risk management, strategy and operational matters. The Board evaluation covered the activities of the main Board and each of its Committees. The Board is considered to be functional and working well. Arising from the exercise, the Board concluded that its focus should remain on divisional growth strategies, technology development, risk and sustainability as well as continued training. The overall conclusion is that the Board is performing well and high governance standards have been adopted. The Executive Committee is strongly challenged by the Board when appropriate.

As in previous years, the Chairman has assessed the performance of each Board member by conducting individual interviews and we can confirm that all directors continue to perform effectively and demonstrate commitment to their roles.

The Executive Directors Messrs S C Harris and D Yates will be appraised in March 2018.

Led by the Senior Independent Non-Executive Director, the directors carried out an evaluation of the Chairman's performance in September 2017. The Board was satisfied with the now retired Chairman's commitment and performance.

Overboarding

At our AGM in 2017, Bodycote received a high number of votes against the re-election of Eva Lindqvist. Eva has now had time to review her directorships and will not stand for re-election at three of her listed companies. RNS announcements will be made during Q1 2018 confirming that Eva will not stand for re-election at the AGMs of Caverion Oy in March 2018, Assa Abloy AB in April 2018 and Alimak Holding in May 2018.

Following these changes, Eva Lindqvist will sit on five listed boards: Bodycote, another UK PLC and three Nordic Boards. Following a review of Eva's time commitments and taking into account the reduced number of meetings of Nordic Boards, the Board is satisfied that Eva has sufficient scope to carry out her commitments even if these should be temporarily increased.

Corporate governance statement continued

Induction

All new directors are subject to a tailored induction programme covering a diverse range of topics including trading, investor relations, organisational and legal matters as well as visits to operational sites. They also meet all other directors and senior executives. This facilitates their understanding of the Group and the key drivers of business performance.

Training

The Board receives training via ad hoc presentations and papers from advisers and the Group Company Secretary. External periodic training on important topics takes place and during the year the directors received training on Stakeholder engagement, FRC consultation on the UK Corporate Governance Code, FRC updates to the guidance on the Strategic Report and other areas of focus for 2017/18. Other opportunities for on-going development and support are:

- a programme of plant/site visits throughout the year,
- reviews with the Chairman to identify any training and development needs,
- advice on governance, relevant legislative changes affecting the business or their duties from the Company Secretary,
- access to independent professional advice at the Company's expense, and
- participation in the training and guidance programme for boards and directors offered at the Deloitte Academy.

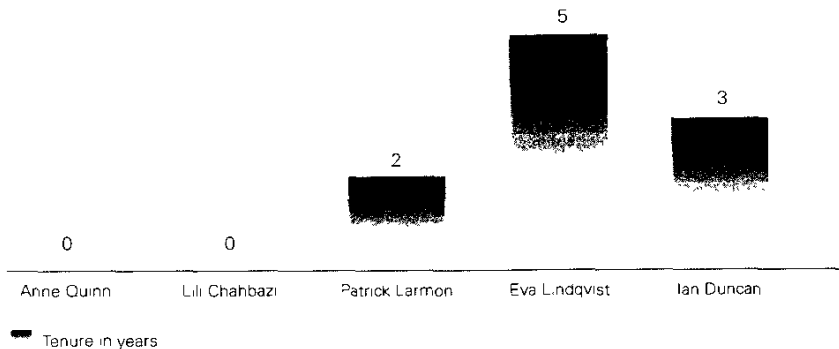
Succession planning

Succession planning ensures that appropriate senior executive leadership resources are in place to achieve Bodycote's strategic objectives. The plans are reviewed annually by the Nomination Committee.

The Board further develops its knowledge and gains greater visibility of executive talent and management succession by visiting the Group's sites and meeting with key talent and senior executives.

Non-executive tenure

(in years)



Individual roles of the Board

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

Core values

The Board acknowledges its responsibility for determining and maintaining the Group's values and ensures these are reflected in the business practices. This is monitored by the Board at regular intervals. Further details are available on page 33.

Pre-emption rights

In line with best practice provisions in the Pre-Emption Group Statement of Principles, the Board confirms that it does not intend to issue more than 75% of the issued share capital of the Group on a non pre-emptive basis in any rolling three-year period.

Corporate governance statement *continued*

Compliance reporting

In respect of the financial year 2017, Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in April 2016 ("the Code")

In respect of the year ended 31 December 2017, Bodycote has complied with the provisions of the Code with the exception of provisions E 1.1. Regarding E 1.1, the Board has, in recent years, taken the view that generally it is the responsibility of the Group Chief Executive and the Chief Financial Officer to manage relationships with institutional investors. The Chairman also meets institutional investors to discuss overall strategy, governance and any concerns that shareholders may have. Only where these more usual channels of communication have failed would the Board expect the Senior Independent Non-Executive Director (SID) or other non-executive directors to become involved, notwithstanding that the Code specifies attendance of the SID at meetings with major shareholders. The SID has contacted major shareholders and offered to facilitate meetings with them should they have any concerns they wish to discuss. Regular feedback from the Group's advisers on investor meetings and results presentations is circulated to all directors. During the year the Chairman met with shareholders to discuss governance matters.

Apart from these distinct areas, Bodycote was in compliance with the provisions of the 2016 Code throughout 2017.

Operation of the Code

Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board report on remuneration presented on pages 48 to 75, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

Leadership

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

The Board met on nine occasions during 2017, including a specific meeting to review and update the Group's long-term strategy. The Board of Directors comprises seven members, of whom five are non-executive directors and two are executive directors, led by the Group's part-time Non-Executive Chairman, A. C. Quinn, who also chairs the Nomination Committee. The Group Chief Executive is S. C. Harris and the Senior Independent Non-Executive Director is I. B. Duncan, who also chairs the Audit Committee. E. Lindqvist is Chair of the Remuneration Committee. P. Larmon and L. Chahbazi are non-executive directors. Brief biographical details of all directors are given on pages 36 to 37. During the year the Board visited a number of UK and overseas facilities, including sites in France and the USA. Such events involved meetings with local management and the unit workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

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

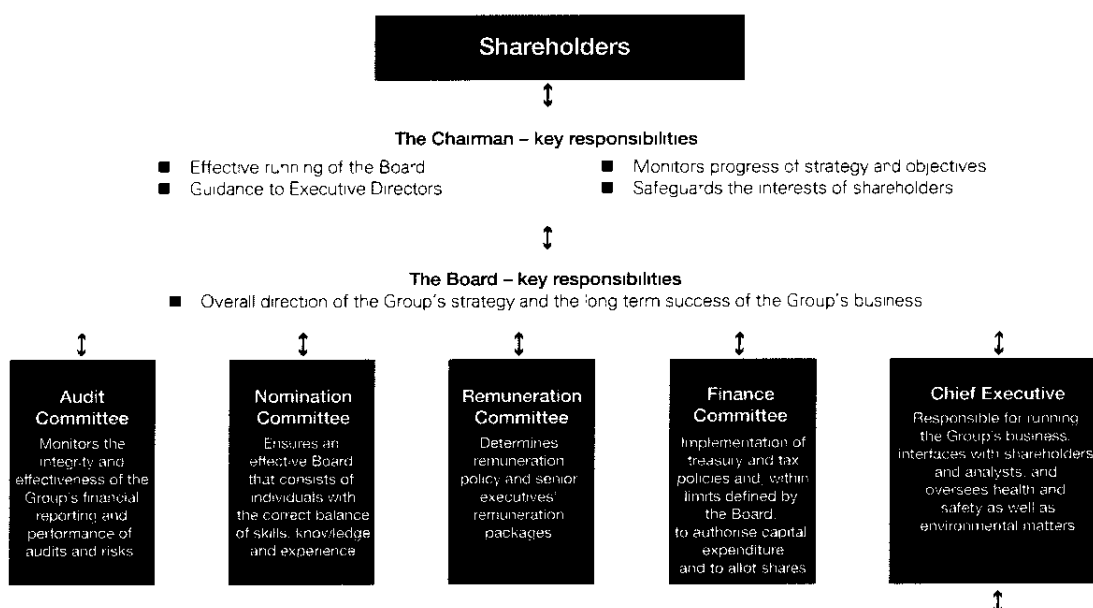
- Strategy,
- Approval of financial statements and circulars,
- Capital projects, acquisitions and disposals,
- Annual budgets,
- Directors' appointments, service agreements, remuneration and succession planning,
- Policies for financial statements, treasury, safety, health and environment, donations,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

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

Where required, a director may seek independent professional advice, the cost of which is reimbursed by the Group. All directors have access to the Group Company Secretary and they may also address specific issues with the SID. In accordance with the Articles of Association, all newly appointed directors must submit themselves for election. All directors stand for yearly re-election. Non-executive directors, including the Chairman, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the directors' responsibilities is set out on page 76. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee. All non-executive directors serve on each Board Committee.

In accordance with the recommendations of the Code, Board members serve for a period of six years, which will only be extended in certain circumstances. If letters of appointment are extended beyond six years, the fixed term is reduced to one year.

In order that necessary actions can be taken promptly, a finance sub-committee, comprising the Chairman (or failing her, any other non-executive director), the Senior Independent Director, the Group Chief Executive and the Chief Financial Officer operates between the dates of scheduled Board meetings and is authorised to make decisions, within limits defined by the Board, in respect of certain finance, treasury, tax or investment matters.



Corporate governance statement continued

Independence of non-executive directors

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

Commitment

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

Director	Full Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A M Thomson ¹	9	9	–	–	4	4	7	7
S C Harris ²	9	9	–	–	–	–	4	4
E Lindqvist	9	9	4	4	6	6	7	7
I B Duncan	9	9	4	4	6	6	7	7
P Larmon	9	9	4	4	6	5	7	7
D Yates	9	9	–	–	–	–	–	–

¹ A M Thomson resigned from the Remuneration Committee on 24 July 2017.

² S C Harris resigned from the Nomination Committee on 24 July 2017.

All directors, attended the maximum number of Board, Audit and Nomination Committee meetings that they were scheduled to attend. P Larmon did not attend one Remuneration Committee due to an unpredictable diary clash. In addition, non-members Messrs A M Thomson, S C Harris, D Yates attended by invitation some parts of the meetings of the Audit, Nomination and Remuneration Committees.

Proposals for re-election

The Board decided, in line with the Code, that all directors will retire annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly, S C Harris, E Lindqvist, P Larmon, I B Duncan and D Yates will stand for re-election at the AGM in May 2018. Having been appointed since the last AGM, A C Quinn and L Chahbazi will stand for election.

The Board recommends to shareholders that they re-elect (or elect) all the directors. In accordance with the recommendations of the Code, Board members will serve for a period of six years which may be extended in certain circumstances.

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

Internal control and risk management

The Board is responsible for the Group's system of internal controls and risk management policies and has an ongoing responsibility for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on reviewing reports from management and from Internal Audit (IA) to consider whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities.

The Board believes that the Group maintains an effective system of internal controls which is in accordance with the FRC's guidance entitled 'Internal Control: Revised Guidance for Directors' (formerly referred to as the Turnbull Report guidance) and, in the view of the Board, no significant deficiencies have been identified in the system. The system was in operation throughout 2017 and continues to operate up to the date of the approval of this report. Key elements of the Group's system of internal control are as follows:

- The Group prepares a comprehensive annual budget which is closely monitored and updated quarterly. The Group's authority matrix was reviewed and updated during 2017 and this clearly sets out authority limits for those with delegated responsibility and specifies what can only be decided with central approval.
- The Board, with the assistance of EY, who provide co-sourced IA services, monitors the Group's internal financial control system. IA reviews are conducted on the basis of a risk based plan approved annually by the Audit Committee. This includes regular visits to each division, shared service centres and plants. The findings and recommendations from IA are reported on a regular basis to the Executive and Audit Committees.
- An annual internal control self-assessment, with management certification, is undertaken by every Bodycote site. The assessment covers the effectiveness of key financial and compliance controls and was revised at the start of 2017. The results are validated by IA through spot checks and are reported to the Executive and Audit Committees.
- Group Core Values and Group Policies (including the Code of Conduct, Group Authority Matrix and Finance Policies) are documented and are available to all employees via the Group's intranet system.
- The Chief Financial Officer, Group Financial Controller, President and Vice President of Finance for each division sign a letter of representation annually. This is to confirm the adequacy of their systems of internal controls, their compliance with Group Core Values and Group Policies, relevant laws and regulations, and that they have reported any control weaknesses and actual, or attempted, frauds or thefts through the Group's assurance processes.
- A Group-wide risk register and assurance map is maintained throughout the year to identify the Group's key strategic and operational risks. Any changes to these risks during the year are promptly reported to the Executive Committee and the Board.

During 2017, in compliance with provision C 2.1 of the Code, management performed a specific assessment of its risk management processes for the purpose of this Annual Report. Management's assessment, which has been reviewed by the Audit Committee and the Board, included a review of the Group's key strategic and operational risks. The review was based on work performed by the Group Head of Risk and the Group's Risk and SHE Committee (by means of workshops, interviews, investigations and by reviewing departmental or divisional risk registers). These risks have been reviewed throughout the year and two new risks have been added since 2016, Environmental and Capital Projects. Further information regarding the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 25 to 29.

Investor relations

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

By order of the Board

U.S. Ball

Group Company Secretary
6 March 2018

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

Directors' report

The directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2017

The Chairman's statement, the Chief Executive's review, the Chief Financial Officer's report and all the information contained on pages 36 to 75 together comprise the Directors' report for the year ended 31 December 2017

Strategic report

The Strategic report is provided on pages 3 to 35 of this Annual Report. This is a review of the development of the Group's businesses, the financial performance during the year ended 31 December 2017, key performance indicators and a description of the principal risks and uncertainties facing the Group. The Strategic report has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year no important events affecting the business of the Group have occurred.

Dividends

The Board has recommended a final dividend of 12.1p (2016: 10.8p) bringing the total ordinary dividend to 174p per share (2016: 15.8p). If approved by shareholders, the final dividend of 12.1p per share will be paid on 1 June 2018 to all shareholders on the register at the close of business on 20 April 2018. A special dividend of 25.0p has also been proposed and will be subject to shareholder approval. If approved, it will be paid on 1 June 2018.

Share capital

The Company's issued ordinary share capital as at 31 December 2017 was £33.1m. No shares were issued during the year. At the AGM on 17 May 2017 the shareholders authorised the Company to purchase up to 22,046,468 of its own shares. This authority expires at the conclusion of the forthcoming AGM to be held on 30 May 2018, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 22. The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 26 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the directors are described in the Corporate governance statement on page 42. Under the Articles of Association the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

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

Directors

The current directors and their biographical details are listed on page 36 to 37 and all served throughout the year. A.M. Thomson retired as Chairman and Non-Executive Director as of 31 December 2017 and was replaced by A.C. Quinn as of 1 January 2018. A further Non-Executive Director, L. Chahbazi, was appointed effective 1 January 2018. Under the Articles of Association of the Company each director must retire from office and stand for re-election by shareholders as a minimum at every third AGM in order to continue to serve as a director. However, in line with the UK Corporate Governance Code and to further increase accountability, all directors retired at the AGM in 2017 and stood for re-election by the shareholders. Going forward all directors will retire at the AGM and will stand for re-election by the shareholders, if they wish to continue to serve as directors of the Company. Accordingly, those directors retiring and offering themselves for re-election at the 2018 AGM are S.C. Harris, I.B. Duncan, E. Lindqvist, P. Larmon and D. Yates. Since A.C. Quinn and L. Chahbazi were appointed after the AGM in 2017, both will stand for election at the AGM in May 2018. The service agreements for Messrs S.C. Harris and D. Yates are terminable by 12 months' notice. The remaining directors do not have a service agreement with the Company and their appointments are terminable by six months' notice.

Directors' interests in contracts and shares

Details of the executive directors' service contracts and details of the directors' interests in the Company's shares and share incentive plans are shown in the Board report on remuneration on pages 54 to 75. No director has had any dealings in any shares or options in the Company since 31 December 2017. Qualifying third party indemnity provision (as defined by section 234 of the Companies Act 2006) has remained in force for the directors for the year ended 31 December 2017 and, as at the date of this report, remains in force for the benefit of the current directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

Potential conflicts of interest

During 2008 the duties owed by directors to a company were codified and extended by the Companies Act 2006 so that directors not only had to declare actual conflicts of interests in transactions as they arose, but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single director owes a fiduciary duty to more than one organisation (a "Situational Conflict") which typically will be the case where a director holds directorships in more than one company. In order to ensure that each director was complying with the duties, each director provided the Company with a formal declaration to disclose what Situational Conflicts affected him or her. The Board reviewed the declarations and approved the existence of each declared Situational Conflict up until September 2019 and permitted each affected director to attend and vote at Bodycote directors' meetings, on the basis that each such director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote shareholders, the Chairman or the Nomination Committee can revoke an authorisation. No such revocations have been made.

Employment

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

Greenhouse gas emissions

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

Donations

There were no political contributions in 2016 or 2017.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 21 February 2018 together with details of the interests of major shareholders in voting shares notified to the Company pursuant to chapter 5 of the Disclosure and Transparency Rules are given on page 143.

Auditor

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

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

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

Annual General Meeting

The 2018 Annual General Meeting will be held on 30 May 2018 in accordance with the notice being sent to shareholders with this report.

By order of the Board

U.S. Ball

Group Company Secretary
6 March 2018

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

Report of the Nomination Committee

Committee membership	No. of meetings 2017: 7	Main committee responsibilities
Director	Attendance	
A M Thomson	7	■ Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes
S C Harris*	4	
I B Duncan	7	■ Give full consideration to succession planning for directors and other senior executives in the course of its work
E Lindqvist	7	
P Larmon	7	■ Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
*resigned membership on 24 July 2017		

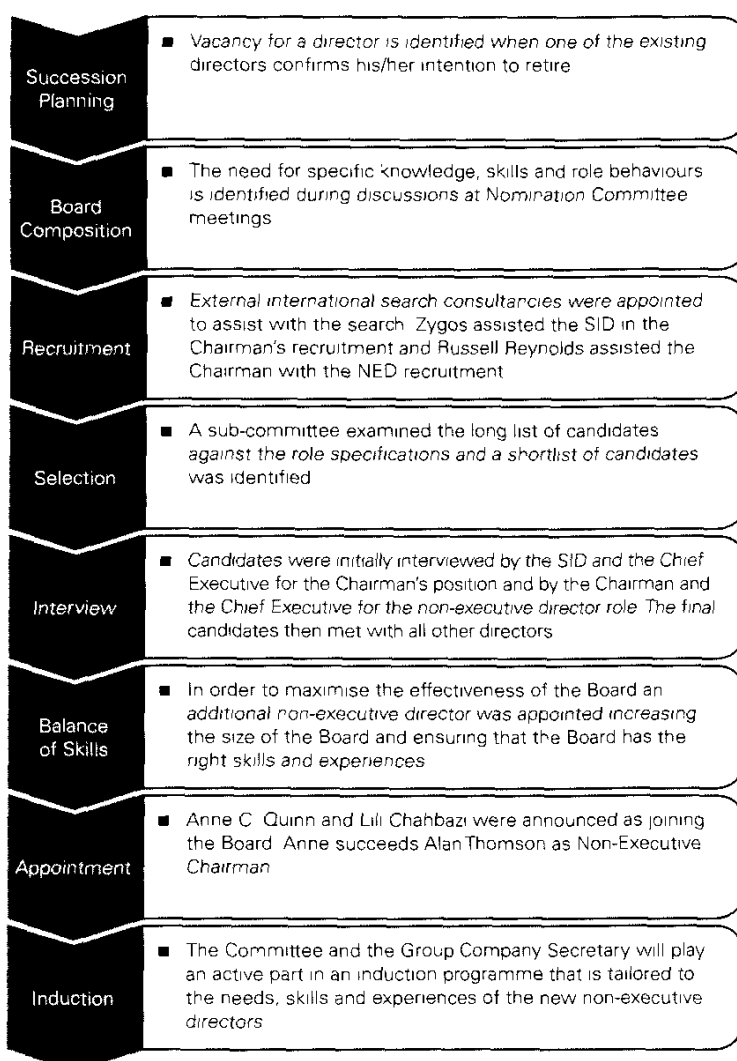
Dear Shareholders

I am pleased to introduce the Nomination Committee report for 2017. The Committee's key objective is to support the Board in fulfilling its responsibilities to ensure there is a formal, rigorous and transparent process for the appointment of new directors to the Board and to ensure that effective succession planning processes are in place across the Group.

This was a busy year for the Committee. In addition to its main responsibilities, the Committee oversaw the process of appointing a new Chairman and a new Non-Executive Director. Alan Thomson, Chairman, retired on 31 December 2017 after more than nine years of service. Lili Chahbazi was appointed Non-executive director on 1 January 2018 at the same time as I took over as Chairman from Alan. The Committee will continue to focus on ensuring that the present and future composition of the Board is appropriate for the delivery of the Group's strategy and that all relevant UK Corporate Governance Code requirements continue to be met.

A. C. Quinn

Chairman of the Nomination Committee



Role of the Nomination Committee

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

Composition of the Nomination Committee

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

The Group Company Secretary is secretary to the Committee.

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

Director appointment policy and progress

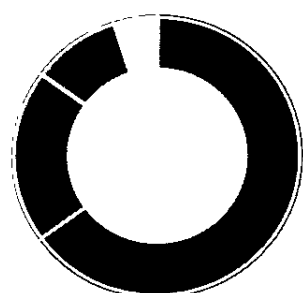
The Committee has developed a formal rigorous and transparent procedure for the appointment of new directors. Prior to making any appointment, the Committee, having evaluated the skills, experience and diversity of the Board, will determine the qualities and experience they seek and will then prepare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

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

Board succession planning

Upon the retirement of A.M. Thomson on 31 December 2017, he was replaced by A.C. Quinn as Chairman as of 1 January 2018. The recruitment process was led by the Senior Independent Director, I.B. Duncan. Ian was advised by international search consultancy Zygos in the process of identifying suitably qualified individuals. Lili Chahbazi joined the Board as a non-executive director on 1 January 2018 and A.M. Thomson was advised by international search consultancy Russell Reynolds. Neither Zygos nor Russell Reynolds have other connections to Bodycote plc.

Nomination Committee – allocation of agenda time



Board composition and succession planning	65%
Performance of Chairman and Group Chief Executive	20%
Governance and reporting	10%
Independence and re-election	5%

Main activities of the Nomination Committee

In 2017 the Committee formally met seven times and reviewed the composition and skills of the Board, with a view to considering the current and future skills and experience that the Board might require.

The Committee discussed succession planning and Board diversity, and reviewed the performance of the Group Chief Executive and other senior executives. In particular, the need to broaden the Board membership with respect to gender, ethnicity and age was discussed. The Committee has sought to ensure that appointments are of the best candidates to promote the success of the Company and are based on merit, with due regard for the benefits of diversity on the Board. Further information concerning Board diversity can be found on page 39 as part of the corporate governance report. We are pleased to report that as of 1 January 2018 the female representation on the Board has risen to 43% compared to 17% in 2017.

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

Following the external Board evaluation in 2015, the Board agreed to undertake an internal evaluation during 2017. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations arising from the 2017 Board evaluation are in the process of being addressed.

In our 2017 AGM results announcement we stated that Eva Lindqvist had confirmed to reduce her number of directorships with listed companies. Consequently, Eva will not stand for re-election at three listed companies: Caverion Oy in March 2018, Assa Abloy AB in April 2018 and Alimak Holding in May 2018. This will reduce Eva's other directorships to five. In our view, this enables Eva to allocate sufficient time to Bodycote to discharge her responsibilities effectively.

In December 2017 the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for dealing with Board issues including drawing up a training and/or induction programme for the directors. The terms of reference of the Committee were reviewed in conjunction with the Model Terms of Reference issued by the Institute of Chartered Secretaries and Administrators. The biographical details of the current directors can be found on pages 36 and 37. The Committee, having reviewed their independence and contribution to Board matters, confirms that the performance of each of the directors standing for re-election at this year's AGM continues to be effective and demonstrates commitment to their roles, including independence of judgement and time commitment for Board and Committee meetings. Accordingly the Committee has recommended to the Board that all current directors of the Company be proposed for re-election at the forthcoming AGM.

As Chairman of the Committee, I will be available at the AGM in May 2018 to answer questions relating to the work of the Committee.

On behalf of the Nomination Committee

A.C. Quinn CBE

Chairman of the Nomination Committee
6 March 2018

Report of the Audit Committee

Committee membership	No. of meetings 2017: 4	Main committee responsibilities
Director	Attendance	
I B. Duncan	4	■ Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls
E. Lindqvist	4	■ Monitor the integrity of the financial statements including annual and half-yearly reports, trading updates and any other formal announcements relating to its financial performance. Reviewing and reporting to the Board on significant financial reporting issues and judgements
P. Larmon	4	■ Review the content of the Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
		■ Monitor and review the adequacy and effectiveness of the Company's internal financial control and risk management systems including the robust assessment of principal risks
		■ Oversee the relationship with the external auditor including consideration of fees, audit scope, terms of engagement, setting policy for the provision of non-audit services to make recommendations to the Board, subject to the approval by shareholders, on the appointment, reappointment or removal of the external auditor
		■ Monitor and review the effectiveness of the Company's internal audit function
		■ Review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters

Introduction

The Committee has continued to focus on the integrity of Bodycote's financial reporting, risk management and internal controls and on the quality of the external and internal audit processes. The Committee will continue to keep our activities under review as the regulatory environment changes.

Membership

The members of the Audit Committee are all independent non-executive directors. Their biographical details are shown on pages 36 to 37 and their remuneration on page 59. The Group Company Secretary is the secretary to the Audit Committee.

I B. Duncan is Chairman of the Audit Committee. The Board considers that I B. Duncan has recent and relevant financial experience. He qualified as a Chartered Accountant with Deloitte & Touche, served as a plc Finance Director (Royal Mail Holdings plc 2006-2010) and has chaired the Audit Committee of several other publicly listed companies.

Other members of the Committee have significant and widespread experience in both executive and non-executive capacities in multinational industrial companies. Accordingly, all members of the Audit Committee are considered to have competence relevant to their duties.

Objective

The Committee's objective is to provide effective governance over the Group's financial reporting, including the adequacy of related disclosures, the management and oversight of the Group's systems of internal control, financial risks and the performance of internal audit and the appointment and performance of the external auditor.

Committee meetings

The Audit Committee met four times during 2017 and in March 2018 and all members attended all the meetings. The Committee Chairman also invited the Chairman, Group Chief Executive, Chief Financial Officer, Group Financial Controller and Group Head of Risk (who is responsible for internal audit) to attend all meetings. Other executives from the Group were also invited, as appropriate, to attend certain meetings to provide a deeper level of insight into key issues. The Committee Chairman also invited the external auditor, Deloitte LLP ("Deloitte"), to every meeting.

I B. Duncan also held preparatory meetings separately with Deloitte, the Group Financial Controller and the Group Head of Risk prior to Committee meetings to review their reports and discuss issues in detail. Both the external and internal auditors met with the Audit Committee without the executives present.

Main activities of the Committee during the year

As part of the process of working with the Board to carry out its responsibilities and to maximise effectiveness, meetings of the Committee generally take place just prior to Board meetings

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

Financial reporting

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

- the quality and acceptability of accounting policies and practices,
- the application and impact of significant judgements or matters where there was significant discussion with the external auditor,
- the clarity of disclosures and compliance with Financial Reporting Standards, and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model and performance

Reports from management were considered on significant matters, including in respect of litigation, treasury and tax matters and also reports from the external auditor on the outcome of their work. The Committee challenged both management and Deloitte to ensure that the scope of the audit was appropriate and that Deloitte had applied the necessary level of professional scepticism in their work

Areas of focus

The areas of focus considered by the Committee in relation to the 2017 Annual Report included the following

- **Impairment of goodwill** The Committee challenged the future forecast underlying the value in use calculation, and the assumptions, particularly the discount rate and growth factors, used in the discounted cash flow calculations for each cash generating unit, the sensitivity analysis applied and the projected future cash flows used to support the carrying values of the goodwill. Details of sensitivity analysis applied to key assumptions used in the impairment review are set out in note 11 to the Financial Statements on page 108. The Committee has concluded that no impairment charge is required in the year
- **Restructuring, reorganisation and environmental provisions** The Committee received reports, including from professional advisers, and challenged the basis and completeness of the assumptions used to calculate the provisions and the appropriateness of disclosures in the Report. The Committee discussed with management the key judgements behind provisions, taking note of the range of possible outcomes, and agreed with their recommendations
- **Taxation** A number of judgements are involved in calculating tax provisions and the level of deferred tax assets to be recognised. The Committee reviewed associated risks and challenged management's assessment concerning the Group's key tax risks, noting the work of the OECD in respect of Base Erosion and Profit Shifting (BEPS), and management's forecast of the future taxable profits of the relevant businesses
- **Viability Statement** The Committee challenged the validity of the assumptions used in the preparation of the three year strategic plan, used as the basis of the assessment of the longer-term viability of the Group, in particular considering the Group's forecast for profits and cash generation, its liquidity position, available borrowing facilities and covenant compliance. Sensitivity analysis was undertaken to consider the impact of certain risks and to understand the impact of changes to all key variables
- **Going concern** The Committee challenged the validity of the going concern assumption used in the preparation of the Annual Report, in particular considering the Group's forecast for profits and cash generation, its liquidity position, available borrowing facilities and covenant compliance. Sensitivity analysis was undertaken to understand the impact of changes to key variables
- **Pension liabilities** Management took external professional advice in determining pension liabilities. The Committee challenged the assumptions used, particularly in respect of inflation, the discount rate, life expectancy and the application of IFRIC 14 to the UK pension scheme, by considering current norms and the sensitivity of the reported liability to changes in the assumptions

Risk management

The Committee reviewed a report at each meeting from the Group Head of Risk who has primary responsibility for developing the Group's risk management framework. The Committee reviewed changes to the principal risks and mitigating actions identified by management. The Committee also received quarterly reports on issues raised via the Open Door Line (an external independent service where employees may report matters of concern) and assessed both how such calls are dealt with and whether there was any indication of material risk. During 2017 there were 15 Open Door Cases, all of which were investigated and closed during the year, with appropriate action taken where necessary

Internal control

At each meeting the Committee considered and challenged reports from the internal auditors on the effectiveness of internal controls. The Committee also performed an annual review of the Group's internal control processes and considers the system to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC (September 2014)

Internal audit

The internal audit plan for 2018 was presented to the Committee in October 2017 and accepted following discussions and challenge as to the scope and areas of focus. At each meeting the Group Head of Risk presented a report to the Committee on the status of internal audit plans for the current year, points arising from audits completed and follow up action plans to address areas of weakness. The status of these actions is monitored closely by the Committee until they are completed. The Committee also received reports on actual or suspected frauds and thefts by third parties and employees. None had any material financial impact on the Group and where necessary, systems and procedures were altered to minimise the risk of recurrence

Report of the Audit Committee continued

External audit

At the May and October meetings the external auditor presented their audit plans for the interim review and year-end audit respectively. The Committee considered and challenged both the scope and materiality to be applied to the Group audit and its components. The Committee considered carefully the scope in respect of smaller and more remote locations and noted that the majority of local audits are undertaken by Deloitte.

Training

Updates were presented to the Committee on new accounting developments and any changes in corporate governance requirements that may affect the Group. Committee members also attended training briefings by accounting firms and other advisers.

Overview

The Committee examined the 2017 Annual Report and was specifically tasked by the Board to advise it on whether the 2017 Annual Report is fair, balanced and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. In doing so the Committee examined these processes, which included the allocation of responsibility for the preparation of certain sections of the Annual Report to individuals in the head office team and a second person taking responsibility for the review process of each section of the Annual Report. Additional reviews were carried out by internal and external personnel including an independent legal review.

The Committee also reviewed the Annual Report. Taken as a whole, in the light of their knowledge of the Group and its performance, the outcome of the activities described above and based on robust discussion with both management and the external auditor, the Committee has concluded that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model, position and performance, and reported to the Board accordingly.

External audit

Appointment

The Committee considers the re-appointment of the external auditor each year and as part of this process considers the independence of the auditor and the effectiveness of the external audit process. Having reviewed the performance of Deloitte in 2017, the Committee has decided to recommend to the Board that Deloitte be reappointed for the 2018 audit and a resolution to this effect will be put to the 2018 AGM. The Committee reviewed and agreed the fee for 2017.

The external auditor is required to change the lead partner every five years and other partners periodically in order to protect independence and objectivity and provide fresh challenge to the Group. Mr M. Mullins has been lead partner since 2015.

Deloitte has been the Group's auditor for 16 years.

In accordance with the transition arrangements of the Competition and Markets Authority Audit order, the Group has until 2023 to hold a competitive tender for external audit services, it is the intention of the Group to hold a competitive tender, at a time which coincides with the next change of the lead audit partner, as the committee believes that the audit partner's knowledge of the business contributes to the quality of the audit process.

The Group complies with the provisions of the "Statutory Audit Services for Large Companies Market Investigation Order 2014".

Independence

The independence of the external auditor has been confirmed by Deloitte every half year and was last confirmed in March 2018. The Committee considered Deloitte's presentation and confirmed that it considered the auditor to be independent.

Significant controls surrounding the financial reporting process

The Group operates under a system of internal controls which have been developed and refined over time to meet its needs and the risks to which it is exposed. This includes:

- preparation of the Strategic Plan,
- comprehensive budgeting process with an annual budget which is approved by the Board,
- quarterly review and revision of financial forecasts for the year,
- monthly monitoring of financial performance,
- recruitment of suitably qualified staff for the Group's administrative offices, shared services centres and regional accounting centres,
- provision of appropriate IT and reporting systems, and
- appropriate delegation of authority to operational management.

Delegations and other Group corporate and financial policies are maintained on the Group intranet. An annual representation letter from all business unit Presidents and Vice Presidents of Finance, with regard to the financial reporting process and the veracity of the information they have submitted, is provided to the Committee.

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

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

An assessment questionnaire was completed by each member of the Committee, the Chief Financial Officer and other senior finance executives. The feedback from the process is considered by the Audit Committee and provided to the external auditor and management. The full formal questionnaire is completed every three years with key areas being completed every year.

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

The Committee considered the FRC Audit Quality Review Team report on Deloitte LLP dated June 2017. If the audit is selected for quality review, the Committee understands that any resulting reports will be sent to the Committee by the FRC. After considering the above matters, the Committee felt that the external audit had been effective.

Non-audit services

The external auditor may be invited to provide services where their position as auditor renders them best placed to undertake the work. Financial due diligence, taxation, internal audit, and actuarial services are not typically contracted to the external auditor. No contracts in excess of £20,000 can be awarded to the external auditor without prior approval from the Chairman of the Committee or, in his absence, another member of the Committee. Non-audit fees paid to the auditor are shown in note 3 on page 104 and amounted to 11% of the audit fee.

The review of the Group's Interim report was the only significant non-audit engagement undertaken by the external auditor. Given the external auditor's detailed knowledge of the Group, the Audit Committee believes that it is in the interests of the Group that the external auditor performs this review.

Internal audit

The internal audit programme is managed by the Group Head of Risk and provides independent assurance over the key financial processes and controls in operation across the Group. The Group has engaged Ernst & Young LLP ("EY") to provide certain internal audit services. The Committee reviewed and approved the annual internal audit plan before the start of the financial year and considered it appropriate to retain EY as an internal audit service provider. The plan takes account of the Group's strategic objectives and risks and provides the degree of coverage deemed appropriate by the Committee.

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

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Risk and the EY engagement partner. An assessment questionnaire was completed by each member of the Committee, the Chief Financial Officer and other senior finance executives. The views of senior operational management have also been canvassed. The review takes into account the views of directors and senior management on matters such as independence, proficiency, resourcing and audit strategy, planning and methodology. On the appointment of a new engagement partner the Committee assesses the experience and expertise of the partner and other senior staff members. Audit quality is assured through a detailed review of each report being carried out by the Group Head of Risk, and a summary of each report's findings being reviewed by the Audit Committee. The review confirmed that the internal audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Committee evaluation

The Committee's activities formed part of an internal review of Board effectiveness which was undertaken in July and August 2017 and approved by the Board in September 2017. There were no material deficiencies noted in the review and directors indicated a high level of satisfaction with the work of the Committee. Based on this, and as a result of the work done during the year, the Committee has concluded that it has acted in accordance with its terms of reference and carried out its responsibilities effectively.

On behalf of the Audit Committee

I.B. Duncan

Chairman of the Audit Committee
6 March 2018

Board report on remuneration

Committee membership	No. of meetings 2017: 6	Main committee responsibilities
Director	Attendance	
E Lindqvist	6	■ Responsibility for setting the remuneration policy for all Executive Directors and the Company's Chairman
A M Thomson*	4	■ Recommend and monitor the level and structure of remuneration for senior management
I B Duncan	6	■ Review the ongoing appropriateness and relevance of the remuneration policy
P Larmor	5	■ Appoint remuneration consultants
* Resigned membership on 24 July 2017		■ Approve the design of and determine targets for Executive Directors and other senior executives' performance-related pay schemes
		■ Review the design of all share incentive plans for approval by the Board and shareholders. Determine whether awards will be made on an annual basis

Chair's letter

As Chair of the Remuneration Committee ("the Committee") and on behalf of the Board of Directors, I am pleased to present our Board report on remuneration for the 2017 financial year, in line with the requirements of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

Structure of report

This year we have restructured our report to support greater transparency and ease of use. We have included a new 'at a glance' section presenting the key outcomes for 2017, and have brought our 'implementation of policy in 2018' section to the front of the report to make it easier for our readers to see our intended approach in 2018. The main body of the report includes the following sections

- **Section A:** This describes how the existing policy, approved at the 2016 AGM, was implemented in 2017.
- **Section B:** This summarises the remuneration policy of the Board with regard to the remuneration of the directors. The full remuneration policy, as approved by shareholders at the AGM in 2016, is also available on our website in the 2015 Annual Report at www.bodycote.com/en/investors/reports-and-results/2015.aspx

Wider workforce considerations and approach to remuneration

Our approach to remuneration emphasises simplicity, with strong alignment to our strategic priorities. We recognise that the emerging governance environment places an increased importance on consideration of pay and conditions in the wider workforce. Following the anticipated release of revisions to the UK Corporate Governance Code, the Committee will review its approach to considering wider workforce reward, and how the views of employees and other stakeholders input to our decisions

Business performance and incentive outcomes for 2017

Bodycote has performed strongly through 2017, with a top line revenue growth of 9.6% at constant currencies. The Group's general industrial markets performed particularly strongly, with a return to growth after a multi-year negative trend

Annual bonus

Improved profitability alongside tight controls on working capital and a focus on higher value added businesses have enabled us to deliver a headline operating profit of £123.9m (an increase of 24% on 2016) together with a headline operating cash flow of £111.7m. Our bonus is based on these metrics, and therefore performance was above maximum under the profit measure and under the cash flow measure. The annual bonus is also, in part, based upon the achievement of personal objectives which relate to the strategic focus of the Company such as growth in emerging markets and Specialist Technologies, against which the CEO performed at 84% of maximum, and the CFO at 70%.

Overall the bonus therefore paid out at 97.9% of maximum for the CEO and 96.1% of maximum for the CFO, of which 35% and 23% for the CEO and the CFO respectively, will be deferred into shares for three years, in line with our approved policy for bonus deferral.

Long term incentive

The Company's principal long term incentive, the Bodycote Incentive Plan (BIP) is based on performance against return on capital employed (ROCE) and earnings per share (EPS) targets over a three year period. Our ongoing focus on operating efficiency, margins, and targeted investments in high growth markets has supported earnings development over the three year period despite the challenging environment. Strong returns have also been delivered, helped by the focus on capital investment in specialist markets and performance was achieved at 48.2% of maximum.

The 2014 Co-Investment Plan (CIP) is based on absolute total shareholder returns growth, and the TSR CAGR value of 5.4%. We have delivered over the three year performance period is reflected in a vesting under this plan of 54.2%. No awards have been made under the CIP since 2015, and so this is the penultimate vesting for this plan.

Note that David Landless, our former Finance Director, will receive pay-outs from these incentives pro-rated for the proportion of the performance period for which he was in the role.

Application of the policy for 2018

The Committee continues to operate within the Remuneration Policy agreed at the 2016 AGM. We set out below a brief overview of how the policy will be applied in the year ahead.

- **Base salaries:** An increase of 2.9% will be applied to the base salaries of the Group Chief Executive and Chief Financial Officer with effect from 1 January 2018, in line with inflation.
- **Benefits and pension:** There will be no changes to benefits and pension during 2018.
- **Annual bonus:** The maximum bonus opportunity remains 200% of salary for the CEO and 150% of salary for the CFO, with 35% of any bonus paid being deferred in shares for three years following conclusion of our transitional deferral arrangements. The measures and weightings used have been reviewed and we believe a bonus consisting of 77% headline operating profit, 10% headline operating cash management and 13% personal objectives continues to enable the annual bonus to be aligned to the Company's strategy and ensures our executives are focussed on delivery of improved profitability and control on working capital.
- **Bodycote Incentive Plan (BIP):** Award levels will remain 175% of salary for Executive Directors. Similarly, measures and weightings have been reviewed and we believe the equal focus on returns and earnings is strongly aligned with our strategic priorities. The growth of our business and our ability to deliver strong and sustainable returns to investors is based on delivery of an effective deployment of capital in rapid growth areas and bolt-on acquisitions. ROCE and EPS metrics will ensure strong alignment between these strategic goals and the reward of our executives over the longer term.

Non-Executive Director changes

On 30 March 2017, Alan Thomson informed the Board of his intention to retire as Chairman and on 31 October 2017 we announced the appointment of Anne Quinn CBE as Non-Executive Chairman with effect from 1 January 2018. Alan Thomson stepped down as Chairman and retired as a director on 31 December 2017. As of 1 January 2018 we have appointed an additional Non-Executive Director, Lili Chahbazi.

At the March 2017 meeting of the Remuneration Committee, it was agreed that the fee paid to the Non-Executive Chairman would be increased from its 2016 level of £169,125 to £200,000. In determining the appropriate fee level the Committee considered market benchmarking against the FTSE 250 and other companies of comparable size and complexity in line with our approved policy set out in Section B of this report. The Committee sought to ensure the revised fee was sufficiently competitive to support the attraction and retention of a Chairman of suitably high calibre and experience to support our leadership as our Company continues to evolve. The fee agreed as of 1 January 2018 for the new Non-Executive Chairman, Anne Quinn, was £225,000.

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

E. Lindqvist

Chair of the Remuneration Committee
6 March 2018

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

Main body	Page
Section A: At a Glance	56
Section A: Implementation of Policy	57
Section A: Annual Report on Remuneration	59
Section B: Remuneration Policy	66

Board report on remuneration continued

Section A Remuneration at a glance

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

Single figure of remuneration for Executive Directors

Incumbent	Financial year	Total salary/fees (£000)	Total pension (£000)	Total other benefits (£000) ²	Annual bonus (£000)	Total BIP ³ (£000)	Total CIP (£000)	Dividend equivalent for BIP + CIP	Total (£000)
S.C. Harris	2017	527	132	27	1,031	485	34	44	2,280
	2016	511	128	23	191	–	19	3	875
D. Yates ¹	2017	380	95	26	548	–	–	–	1,049
	2016	63	16	2	–	–	–	–	81

¹ Dominique Yates was appointed as Executive Director on 1 November 2016 and Chief Financial Officer on 2 January 2017 following the retirement of D.F. Landless.

² Other benefits consist of company car (or allowance), family level private medical insurance, salary supplement in lieu of pension life assurance cover and sick pay. Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the director has received grossed up compensation for this in order to leave him in a neutral position.

³ BIP value calculated by reference to the closing share price on 5 March 2018 of £9.11.

Annual performance related bonus

The 2017 annual bonus was based on three elements – headline operating profit, headline cash management and personal objectives. Stretching targets were set in the context of the challenging market conditions we faced and the investments that were planned in the year. Following strong performance in the year the bonus paid out at 97.9% for the CEO and 96.1% for the CFO, 35% and 23% of the award will be deferred in shares for the CEO and the CFO respectively. The performance targets and actual performance are set out below.

	% of award	Threshold	Target	Maximum	Actual performance achieved	Outcome			
						S.C. Harris		D. Yates	
						% of max	% of salary	% of max	% of salary
Group headline operating profit	77%	£99.6m	£103.6m	£108.8m	£123.9m	100%	154%	100%	116%
Group headline operating cash flow	10%	£91.4m	£96.0m	£96.0m	£111.7m	100%	20%	100%	15%
Personal scorecard	13%					84%	22%	70%	14%
Total						98%	196%	96%	145%

Bodycote Incentive Plan (BIP)

BIP awards made in 2015 had a three-year performance period ending on 31 December 2017, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to the headline earnings per share (EPS) target. Over this period our share price has increased by 41%, demonstrating the returns we have made to shareholders. This is reflected in the 48.2% of max vesting of the BIP. The threshold and maximum targets along with the vesting schedule are set out in the tables below.

	ROCE		Headline EPS	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	18.7%	0%	45.0p	0%
Maximum performance	23.0%	100%	61.3p	100%
Performance achieved	19.8%*	48.3%	49.2p*	48%

* Note: The headline EPS figure and ROCE percentage used to calculate the BIP award exclude the exceptional £6.4m gain from the US Tax Cuts and Jobs Act.

2015 BIP outcome

S.C. Harris	48.2% of maximum opportunity
D. Yates	n/a
D.F. Landless	48.2% of maximum opportunity (to be pro-rated)

Legacy Co-Investment Plan (CIP)

Until 2015 Executive Directors were invited annually to purchase shares up to 40% of basic salary (net of tax) against which performance based matching shares are granted on a 1:1 basis. CIP awards are subject to an absolute TSR target. No further awards will be made under this plan. The CIP awards made in 2014 had a three-year performance period ending on 30 April 2017. The absolute TSR performance targets applicable to this award are set out below.

Absolute TSR performance target	Vesting level
4% CAGR + CPI	50% (0.5:1 match)
10% CAGR + CPI	100% (1:1 match)

Over the three-year period, the Group achieved absolute annual TSR growth of 5.4%, reflecting the value we have delivered to our shareholders over this period. This performance resulted in a vesting of 54.2% under the plan. The number and value of shares which vested for S.C. Harris is set out on page 61. As D.F. Landless is no longer an Executive Director, vesting under this plan to him is set out under payments to past directors.

Shareholding requirements

Executive Directors and other senior executives are expected, within five years of appointment, to build up a shareholding in the Company. For the purposes of this requirement, only beneficially-owned shares and the value of deferred shares under the annual bonus will be counted. The table below sets out the minimum shareholding requirements, as a percentage of salary, for the Chief Executive and for the Chief Financial Officer, noting that Mr Yates has reached his holding requirement.

Shareholding requirements	Minimum shareholding requirement	Current shareholding ¹
S.C. Harris	200%	303%
D. Yates	150%	481%

¹ At the 31 December 2017 share price

Implementation of the Remuneration Policy in 2018

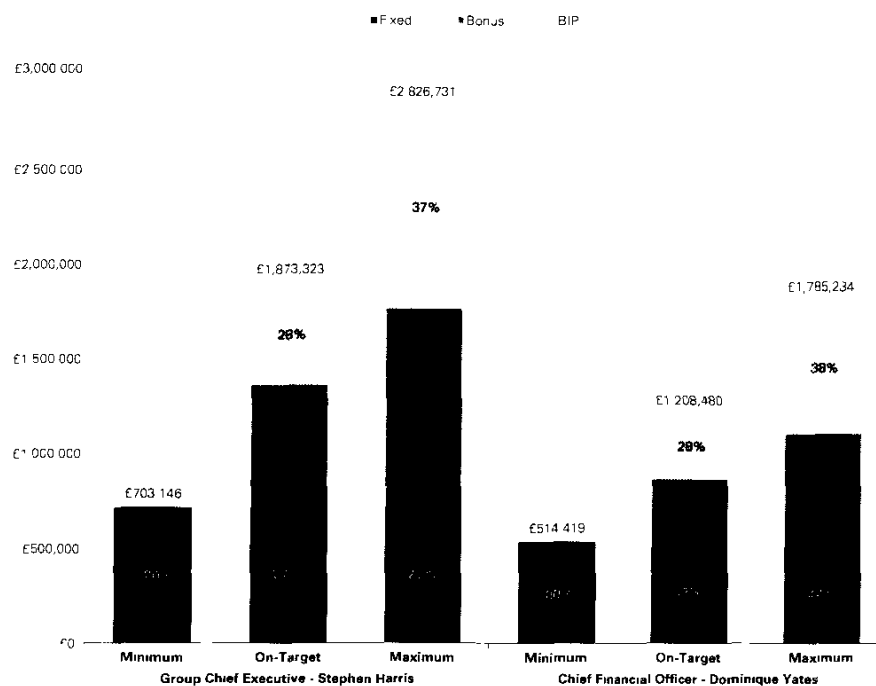
The table below provides information on how our Remuneration Policy will be implemented in 2018.

Element of pay	Implementation for 2018																											
Total salary	<p>Base salaries are reviewed on an annual basis</p> <p>S C Harris will receive a salary of £541,923 in 2018, an increase of 2.9% (2017 £526,650)</p> <p>D Yates will receive a salary of £391,020 in 2018, an increase of 2.9% (2017 £380,000)</p> <p>Note that Non-Executive Director fees will next be reviewed at the March 2018 meeting of the Committee, and the outcome of this review will be disclosed in the following years' report</p>																											
Pension and benefits	<p>No changes proposed</p> <p>Executive Directors receive a salary supplement in lieu of pension at a rate of 25% of base salary</p>																											
Annual bonus	<p>No change to maximum opportunity 200% of base salary for CEO, 150% of base salary for CFO</p> <p>The performance measures and their relative weightings also remain unchanged 77% operating profit, 10% operating cash management and 13% personal objectives</p> <p>The Committee reviews the performance measures and targets on an annual basis to ensure that they remain appropriately aligned to the overall business strategy but do not encourage excessive risk taking</p> <p>The Committee has determined that performance targets will not be disclosed on a prospective basis for reasons of commercial sensitivity, but will be disclosed on a retrospective basis in next year's Annual Report on Remuneration to the extent that the Committee determines that the measures are no longer commercially sensitive</p>																											
Bodycote Incentive Plan (BIP)	<p>No change to maximum opportunity 175% of base salary for Executive Directors</p> <p>The performance measures and their relative weightings also remain unchanged 50% ROCE and 50% headline EPS</p> <p>The targets for the 2018 BIP awards are disclosed below and ensure that the Committee are able to deliver upper quartile reward for upper quartile performance</p> <table><tr><th colspan="3">BIP targets for 2018 award</th></tr><tr><td>Performance metric</td><td>Headline EPS</td><td>ROCE</td></tr><tr><td>Weighting (% of total award)</td><td>50%</td><td>50%</td></tr><tr><td>Performance period</td><td>3 years</td><td>3 years</td></tr><tr><td>Threshold performance</td><td>50p</td><td>17%</td></tr><tr><td>Vesting level</td><td>0%</td><td>0%</td></tr><tr><td>Maximum performance</td><td>64p</td><td>23%</td></tr><tr><td>Vesting level</td><td>Full vesting</td><td>Full vesting</td></tr><tr><td>EPS underpin</td><td>42.5p</td><td></td></tr></table> <p>During the year, the Committee reviewed the BIP structure and measures in the context of our strategic priorities over the coming three years. The Committee determined that the current framework continues to appropriately support delivery of our strategic plan</p>	BIP targets for 2018 award			Performance metric	Headline EPS	ROCE	Weighting (% of total award)	50%	50%	Performance period	3 years	3 years	Threshold performance	50p	17%	Vesting level	0%	0%	Maximum performance	64p	23%	Vesting level	Full vesting	Full vesting	EPS underpin	42.5p	
BIP targets for 2018 award																												
Performance metric	Headline EPS	ROCE																										
Weighting (% of total award)	50%	50%																										
Performance period	3 years	3 years																										
Threshold performance	50p	17%																										
Vesting level	0%	0%																										
Maximum performance	64p	23%																										
Vesting level	Full vesting	Full vesting																										
EPS underpin	42.5p																											

Board report on remuneration continued

Illustration of application of remuneration policy for 2018

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk taking. This is reviewed on an annual basis. The composition and value of the Executive Directors' remuneration packages should they achieve below, at or above target performance are set out in the charts below.



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

- Fixed elements comprise base salary and other benefits
 - Base salary reflects the base salary as at 1 January 2018
 - Benefits reflect benefits received in 2017 (including pension)
- For on-target performance, an assumption of 60% of annual bonus is applied and vesting of 50% of the maximum for the BIP
- No share price increase has been assumed or dividend reinvestment
- Fixed elements are salary, benefits and pension
- Annual variable element is the annual bonus both cash and deferred shares
- Long-term variable element is the BIP award and dividend equivalents

Annual report on remuneration

This section provides details of remuneration outcomes for Executive Directors who served during the financial year ending 31 December 2017. This section of the report is audited and subject to an advisory vote by shareholders at the 2018 AGM.

Auditable section

Total single figure table

Incumbent	Financial year	Total salary/fees (£000)	Total pension (£000)	Total other benefits ¹ (£000)	Annual bonus (£000)	Total BIP ² (£000)	BIP value at grant price (£000)	Share price gain on vesting of BIP between grant and vest date	Total CIP ³ (£000)	Total (£000)
Executive Directors										
S C Harris	2017	527	132	27	1,031	526	408	77	37	2,280
	2016	511	128	23	191	3	–	–	19	875
D Yates ⁴	2017	380	95	26	548	–	–	–	–	1,049
	2016	63	16	2	–	–	–	–	–	81
Non-Executive Directors										
A M Thomson ⁵	2017	200	–	1	–	–	–	–	–	201
	2016	169	–	–	–	–	–	–	–	169
P Larrmon ⁶	2017	54	–	6	–	–	–	–	–	60
	2016	15	–	–	–	–	–	–	–	15
E Lindqvist	2017	63	–	2	–	–	–	–	–	65
	2016	62	–	–	–	–	–	–	–	62
I B Duncan ⁷	2017	72	–	–	–	–	–	–	–	72
	2016	67	–	–	–	–	–	–	–	67

Notes accompanying the total single figure table

- Other benefits consist of company car (or allowance), family leave, private medical insurance, life assurance cover and sick pay. Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the directors have received grossed up compensation for this in order to leave him/her in a neutral position.
- The 2017 figures relate to BIP awards made in 2015 with performance periods ending on 31 December 2017. Shares vested as the targets were achieved at 48.2%. This includes dividend equivalents. For 2017, dividend equivalents for S C Harris were £40,521. The share price of £9.11 at close of markets on 5 March 2018 was used to estimate the value.
- The 2017 figures relate to CIP awards made in 2014 with performance periods ending 30 April 2017. The shares vested in May 2017 at a share price of 777.5p. This includes dividend equivalents. For 2017, dividend equivalents for S C Harris were £3,284.
- D Yates was appointed on 1 November 2016 as Group Finance Director designate. D F Landless retired on 1 January 2017 as Group Finance Director.
- A Thomson announced on 30 March 2017 his intention to retire as Chairman and stepped down on 31 December 2017. A Thomson's fee was increased from £169k to £200k during the year. In determining the appropriate fee level the Committee considered market benchmarking against the FTSE 250 and other companies of comparable size and complexity in line with our approved policy set out in Section B of this report.
- P Larrmon was appointed on 13 September 2016 as Non-Executive Director.
- I B Duncan took over as Senior Independent Director from R Rajagopa on 27 May 2016.

Base salary

The base salaries of the Executive Directors are reviewed in January every year. As described in Section B, Directors' Remuneration Policy, a number of factors are taken into account when salaries are reviewed, including companies of a similar size and complexity, and the individual's role, experience and performance, as well as a consideration of market level salaries payable in FTSE 250. The table below sets out the base salary figures for 2018 along with comparative figures for 2017.

Name	Position	Salary from 1 January 2017	Salary from 1 January 2018	Salary increase
S C Harris	Group Chief Executive	£526,650	£541,923	2.9%
D Yates (appointed as Executive Director on 1 November 2016 and CFO on 2 January 2017)	Chief Financial Officer	£380,000	£391,020	2.9%

Pension

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

Board report on remuneration continued

Taxable benefits

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

Name	Car/car allowance	Fuel	Healthcare	Other taxable benefits*
S.C. Harris	£17,560	£2,400	£1,476	£5,307
D. Yates	£12,000	£1,200	–	£12,444

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

Incentive outcomes for 2017

Annual performance related bonus

The table below provides the details of the annual bonus awards received in respect of the Group and individual performances in the 2017 financial year.

The annual bonus potential for the period to 31 December 2017 for Executive Directors was split 77% in respect of Group headline operating profit, 10% on Group headline operating cash flow and 13% on personal strategic objectives. These performance conditions and their respective weightings reflected the Committee's belief that any incentive compensation should be linked both to the overall performance of the Group and to those areas of the business that the relevant individual can directly influence.

Stretching targets were set in the context of the challenging market conditions we faced and the investments that were planned in the year. Following strong performance in 2017, the bonus paid out at 97.9% for the CEO and 96.1% for the CFO, 35% and 23% of the award will be deferred in shares, for the CEO and the CFO respectively. The performance targets and actual performance are set out below.

	% of award	Threshold	Target	Maximum	Actual performance achieved	Outcome			
						S.C. Harris		D. Yates	
						% of max	% of salary	% of max	% of salary
Group headline operating profit	77%	£99.6m	£103.6m	£108.8m	£123.9m	100%	154%	100%	116%
Group headline operating cash flow	10%	£91.4m	£96.0m	£96.0m	£111.7m	100%	20%	100%	15%
Personal scorecard	13%					84%	22%	70%	14%
Total						98%	196%	96%	145%

Note that in the 2016 Directors' Remuneration Report the weighting of annual bonus measures were incorrectly disclosed. The weightings above are the correct weighting for 2017, and are unchanged on those used in 2016.

The Committee assessed the performance of the Group Chief Executive and Chief Financial Officer against their personal objectives. For the CEO these included targets relating to safety, focus on driving growth in emerging markets and in Specialist Technologies, implementation of sales strategy, and maintaining market capitalisation. For the CFO targets included implementation of major IT and finance process projects. The Committee concluded that personal strategic objectives were achieved at a level of 84% of the maximum award for the CEO. The CFO achieved 70% of maximum.

Bodycote Incentive Plan (BIP)

BIP awards made in 2015 had a three-year performance period ending on 31 December 2017, after which they will vest immediately, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to the headline earnings per share (EPS) target.

Over this period our share price has increased by 41%, demonstrating the strength of the returns we have made to shareholders. The threshold and maximum targets along with the vesting schedule are set out in the tables below.

	ROCE		Headline EPS	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	18.7%	0%	45.0p	0%
Maximum performance	23.0%	100%	61.3p	100%
Performance achieved	19.8%*	48.3%	49.2p*	48%

* Note: The headline EPS figure and ROCE percentage used to calculate the BIP award exclude the exceptional £6.4m gain from the US Tax Cuts and Jobs Act.

If headline EPS at the end of the performance period was below 41.8p, then no awards will vest. Over the period, ROCE was 19.8% and the headline EPS figure for the year was 49.2p.

The table below sets out the 2015 BIP outcome for S C Harris. As D F Landless is no longer an Executive Director, the vesting under this plan to him is set out under payments to past directors.

2015 BIP outcome

S C Harris	48.2% of maximum opportunity
------------	------------------------------

The table below sets out a summary of shares vesting for BIP awards made in 2015 for S C Harris. The closing share price of £9.11 on 5 March 2018 is used to estimate the value.

Executive	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Vesting date
S C Harris	2015 BIP	13 April 2015	110,687	31 Dec 17	48.2%	53,317	12 Mar 18

Legacy Co-Investment Plan (CIP)

As described in Section B Directors' Remuneration Policy, CIP awards are subject to an absolute TSR target. Executive Directors were invited to purchase shares up to 40% of basic salary (net of tax) against which performance based matching shares are granted on a 1:1 basis. The CIP awards made in 2014 had a three-year performance period ending on 30 April 2017, and vested on 31 May 2017. The absolute TSR performance targets applicable to this award are set out below.

Absolute TSR performance target	Vesting level
4% CAGR + CPI	50% (0.5:1 match)
10% CAGR + CPI	100% (1:1 match)

Over the three-year period, the Group achieved absolute annual TSR growth of 5.4%. This strong return to shareholders over the period is reflected in the vesting of 54.2% under the CIP. Note that awards are no longer made under the CIP.

The number of shares which vested for S C Harris is set out below. As D F Landless is no longer an Executive Director, vesting under this plan to him is set out under payments to past directors.

Scheme interests awarded in the financial year

CIP awards granted during the year

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

BIP awards granted during the year

Awards consisting of conditional shares were granted to both Executive Directors, equivalent in value to 175% of their base salaries on 18 May 2017, and will vest after three years in March 2020. The performance period will end on 31 December 2019. Details of the awards are set out below. Awards are subject to continued employment and the achievement of ROCE and headline EPS growth performance targets, as summarised in the table below.

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

	ROCE		Headline EPS	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	15.5%	0%	31.7p	0%
Maximum performance	23.0%	100%	52.0p	100%

If headline EPS at the end of the performance period is below 27.0p, then no awards will vest. The Committee has decided that the ROCE figure of 23% is a robust aspiration for the Group in view of our expected programme of investments, recognising the potential for unintended consequences in terms of short-term capital underinvestment for the business. Dividend equivalents are payable in respect of those shares that vest.

The number of shares that were awarded, at a grant price of £8.02, to the Executive Directors during the year is set out below.

Executive	Award type	Grant date	Number of shares	Market price at date of award	Face value at date of award
S C Harris	2017 BIP	18 May 2017	111,569	£7.605	£848,482
D Yates	2017 BIP	18 May 2017	82,916	£7.605	£630,576

Board report on remuneration continued

Chairman and Non-Executive Directors' fees

Fees were reviewed against comparable companies of similar size and were effective as of 1 January 2017. The fee payable to the Chairman of the Board and other Non-Executive Directors were as follows:

Individual	Roles	Fee for 2017	Fee for 2016	% increase in NED role fees	% increase in actual fee paid to individual
Eva Lindqvist	■ Non-Executive Director	£63,345	£61,500	3%	3%
	■ Chair of Remuneration Committee				
	■ Member of Audit, Chair and Nomination Committees				
Ian Duncan	■ Non-Executive Director	£72,318	£66,582	3%*	9%*
	■ Chair of Audit Committee				
	■ Member of Audit, Chair and Nomination Committees				
	■ Senior Independent Director				
Patrick Larmon	■ Non-Executive Director	£54,372	£52,788	3%	3%
	■ Member of Audit, Chair and Nomination Committees				
Alan Thomson	■ Non-Executive Chairman	£200,000	£169,125	18%	18%

Non-Executive Director fees were increased for 2017 based on market benchmarking against Non-Executive Director fees in the FTSE 250 and other companies of similar size and complexity in line with the Policy set out in Section B of this report.

The Chairman fee for Alan Thomson was increased by 18%. In determining the appropriate fee level the Committee considered market benchmarking against the FTSE 250 and other companies of comparable size and complexity in line with our approved policy set out in Section B of this report.

* At the 2016 AGM Ian Duncan was appointed Senior Independent Director (SID). His fee for 2016 therefore represents a pro-rated fee covering SID responsibilities for 7 months of 2016. The 9% increase shown above represents the difference between this pro-rated fee and the total annual fee including the SID role for 2017. His annualised fee was increased by 3% in line with the Company's other Non-Executive Directors.

At 31 December 2017 the aggregate annual fee for all Non-Executive Directors, including the Chairman, was £390,035, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £500,000 p.a.

Board changes in 2017

Payments for loss of office

No payments for loss of office were made in the year. David Landless resigned as an Executive Director as of 1 January 2017. The Remuneration Committee determined that Mr Landless would be treated as a good leaver, and all payments made to Mr Landless were within the approved loss of office policy set out in Section B.

Payments to past directors

In March 2017 David Landless received a bonus payment relating to the year ending 31 December 2016 amounting to £66,128. This was in line with our approved policy and related to his full year of service in 2016, but was paid to Mr Landless in 2017.

Under a consultancy agreement following cessation, David Landless agreed to be available to the Company during January and February 2017 to support Dominique Yates and Stephen Harris through this transitional period and received a fee of £6,000 in exchange for his services during the period. No other cash payments were made to Mr Landless.

In June 2017 David Landless received dividend equivalents in connection with the pro-rated vesting of the 2014 CIP amounting to £3,386.

David's 2015 Bodycote Incentive Plan (BIP) and Co-Investment Plan (CIP) awards are to be pro-rated to his leaving date and are subject to achievement of performance conditions at the end of the three year performance period. The 2016 BIP award has lapsed. No CIP awards were made in 2016 or 2017.

2014 CIP (vested on 31 May 2017)

Over the three-year period, the Group achieved absolute TSR growth of 5.4%. This performance resulted in the TSR targets being achieved at a level of 54.2%. This meant that the number of pro-rated shares which vested for D.F. Landless was 4,497 at a share price of £7.78 at the date of vesting on 31 May 2017.

2015 BIP (to vest on 12 March 2018)

The tables below set out the 2015 BIP award outcome for D.F. Landless and a summary of shares vesting for BIP awards made in 2015. The closing share price of £9.11 on 5 March 2018 is used to estimate the value.

2015 BIP outcome

D.F. Landless	48.2% of maximum opportunity (to be pro-rated)
---------------	--

Executive	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting (pro-rated)	Vesting date
D F Landless	2015 BIP	13 April 2015	70,691	31 Dec 17	48.2%	22,701	12 Mar 18

He also received dividend equivalents in connection with the 2015 BIP vesting amounting to £17,253

Directors' shareholdings

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

The shareholding requirement for the CEO is 200% of salary and for the CFO is 150% of salary.

The interests in ordinary shares of directors and their connected persons as at 31 December 2017, including any interests awarded under the annual bonus, CIP or BIP, are presented below along with whether Executive Directors have met the shareholding guidelines. We note that shares under the annual bonus and the BIP are conditional on continued employment until vesting.

As at 12 March 2018, the interests of the directors were unchanged from those at 31 December 2017.

	Counted towards the shareholding requirement		Outstanding scheme interests (not counted towards shareholding requirement)		Shareholding requirement met ²
	Beneficially owned	Deferred shares to be granted under the annual bonus	Shares subject to performance conditions BIP ¹	Shares subject to performance conditions CIP ¹	
Executive Directors					
S C Harris (200% minimum holding requirement)	174,980	£360,987	374,023	5,113	Yes
D Yates (150% minimum holding requirement)	200,000	£127,870	82,916	–	Yes
Non-Executive Directors (No holding requirement)					
A M Thomson	53,012		–	–	n/a
E Lindqvist	12,200		–	–	n/a
I B Durcan	–		–	–	n/a
P Larmor	5,000		–	–	n/a
A Quinn (appointed 1/1/18)	1,000		–	–	n/a
L Chahbazi (appointed 1/1/18)	–		–	–	n/a

¹ Figures relate to unvested awards under the BIP and the CIP.

² At the 31 December 2017 share price.

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

The interests of the Executive Directors in the Company's share schemes as at 31 December 2017 are as follows. Note that no CIP award was made in 2016 or 2017 with the last award being granted in 2015.

	Interests as at		Awarded in year ¹	Vested in year ²	Lapsed in year	At 31 December 2017	Market price at award date	Market value at date of vesting	Vesting date
	1 January 2017								
Bodycote Incentive Plan (BIP)									
S C Harris	371,753	111,569	–	109,299	374,023	£761	–	–	March 2020
D F Landless ³	237,423	–	–	166,732	70,691	–	–	–	n/a
D Yates	0	82,916	–	–	82,916	£761	–	–	March 2020
Legacy Bodycote									
S C Harris	13,160	–	4,361	3,686	5,113	–	£778	–	May 2017
Co-Investment Plan (CIP)									
D F Landless ³	14,448	–	4,497	3,801	6,150	–	£778	–	May 2017

¹ Mid-market closing price of a share on the day before the BIP 2017 grant was £789. The face value of the award to S C Harris was £879,721. The face value of the award to D Yates was £653,793.

² As performance conditions were not met, the 2014 BIP award did not vest. CIP³. The awards that vested during the year vested at 54.2% (details of the relevant performance conditions are set on page 61).

³ Retired as Group Finance Director on 1 January 2017. D Yates appointed Chief Financial Officer on 2 January 2017.

End of auditable section

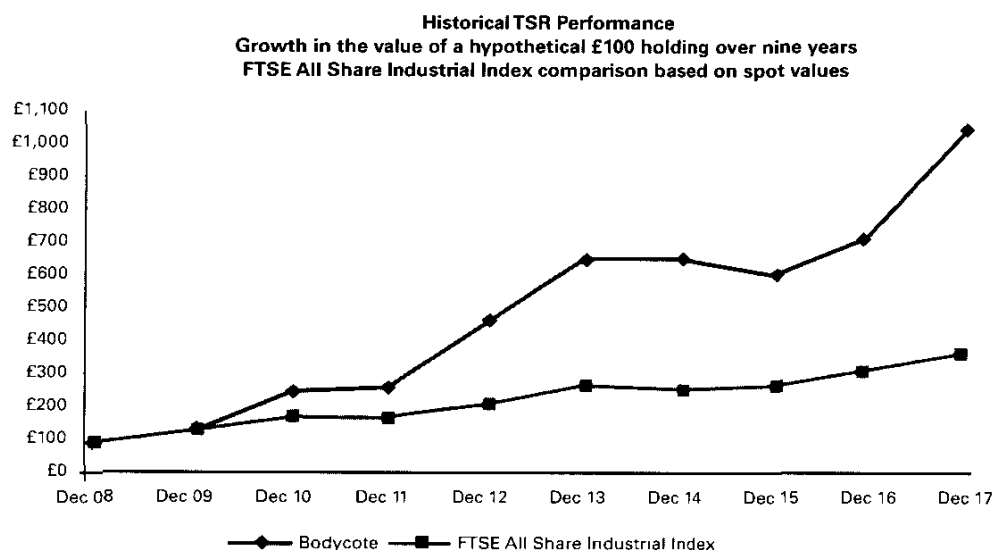
Board report on remuneration continued

Fees retained for external Non-Executive Directorships

To broaden the experience of Executive Directors, the position of Non-Executive Director may be held in other companies, provided that permission is sought in advance. Any external appointment must not conflict with the directors' duties and commitments to Bodycote plc. S C Harris has held the position of Non-Executive Director of Mondi plc since 1 March 2011 and in accordance with Group policy he retained fees for the year of £95,771.

Comparison of overall performance and pay

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



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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single figure of remuneration £'000	531	906	3,252	3,840	3,089	1,803	771	875	2,280
Annual variable element award (as a % of maximum) opportunity	5%	98%	95%	73%	46%	73%	20%	19%	98%
Long-term incentive vesting (as a % of maximum)	0%	0%	100%	100%	99%	44%	0%	0%	48%

Percentage change in remuneration of Group Chief Executive

The table below sets out the percentage change in the Group Chief Executive's remuneration from the prior year compared to the average percentage change in remuneration for the senior management population. The Remuneration Committee has chosen the senior management population as the wider global employee population operates under an incomparable pay structure. The senior management population is the most relevant and comparable population and is primarily based in the UK.

	Chief Executive Officer			Senior management population
	2017 (£000)	2016 (£000)	% change	Average % change
Salary	527	511	3.0%	3.7%
Annual bonus	1,031	191	439.8%	5.0%*
Total	1,558	702	122.0%	4.0%*

*Average senior management population bonus change is based on the maximum potential bonus payout.

Relative importance of pay spend

The table below shows the total expenditure in relation to staff and employee costs and distributions to shareholders in 2016 and 2017.

	2017 £m	2016 £m	% change
Staff and employee costs	283.8	239.5	18.5%
Distributions to shareholders	30.6	48.1	(36.4)%

Committee membership

During 2017 the Committee was chaired by E. Lindqvist. The Committee also comprised A. M. Thomson (retired from the Committee on 24 July 2017), I. B. Durcan and P. Larmon.

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

Committee activities

During 2017 the Committee met 6 times to consider, amongst other matters:

Theme	Agenda items
Best practice	<ul style="list-style-type: none"> ■ The Group's Remuneration Policy, discussions and feedback from the Group's AGM in 2017 and the Corporate Governance Code and Investment Management Association (IMA) guidelines on executive remuneration ■ Review of the current UK corporate governance environment and the implications for the Group
Implementation Report	<ul style="list-style-type: none"> ■ Consideration and approval of the Implementation Report to be put to shareholders and as summarised in Section A of the Board report on remuneration
Executive Directors' and senior executives' remuneration	<ul style="list-style-type: none"> ■ Basic salaries payable to each of the Executive Directors ■ The annual bonus and payments for the year ended 31 December 2017 ■ The annual bonus structure and performance targets for the year ended 31 December 2018 ■ The awards and vestings made under the Bodycote Incentive Plan ('BIP') ■ The vesting made under Co-Investment Plan ('CIP') during the year ■ Pension arrangements for senior executives ■ Fee for incoming Chairman
Reporting	<ul style="list-style-type: none"> ■ Consideration and approval of the Board report on remuneration

Advisers to the Committee

The Committee was advised by PwC during 2017 on remuneration matters including providing advice on matters under consideration by the Committee, updates on good practice, legislative requirements and market practice. PwC were appointed by the Remuneration Committee in July 2015 following a competitive tender process. PwC's fees for the year, based on the quantity and complexity of the work undertaken, amounted to £44,000. PwC also undertakes tax and accounting work for the Company. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Code of Conduct can be found at remunerationconsultantsgroup.com. The Remuneration Committee is satisfied that the advice provided on executive remuneration is objective and independent, and that no conflict of interest arises as a result of these services. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. Legal advice was provided by Eversheds and fees amounted to £0.1m. All fees are based on the quantity and complexity of work undertaken.

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

Statement of shareholder voting

The table below displays the voting results on the remuneration resolution at the 2017 AGM as well as the result of the Remuneration Policy at the 2016 AGM.

	2017 Board report on remuneration (% votes)	2016 Directors' Remuneration Policy (% votes)
Votes cast	86%	83%
For	96%	85%
Against	4%	15%
Number of abstentions	2,034,367	596,122

E. Lindqvist

Chair of the Remuneration Committee
6 March 2018

Board report on remuneration continued

Section B: Directors' Remuneration Policy

Remuneration Policy

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

In order to ensure continued alignment between remuneration and the evolving strategic direction of our business, a revised policy was approved by our shareholders at the AGM in May 2016. This policy, applicable from the date of the 2016 AGM, is set out below

Discretion

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval

Executive Remuneration Policy

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

Current Remuneration Policy table

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

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Benefits <i>Provides market-competitive benefits at an appropriate cost</i>	<p>The Company provides a range of cash benefits and benefits in kind to Executive Directors in line with market practice. These include the provision of company car (or allowance), private medical insurance, short- and long-term sick pay and death in service cover. This will also extend to the reimbursement of taxable work-related expenses, such as travel and relocation.</p> <p>The provision of other benefits payable to an Executive Director is reviewed by the Committee on an annual basis to ensure appropriateness in terms of the type and level of benefits provided.</p> <p>The Company provides a long-term savings vehicle into which the Executive Directors may elect to waive a proportion of pension allowance.</p> <p>In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice.</p>	<p>The Committee has not set a maximum level of benefit, given that the cost of certain benefits will depend on the individual's particular circumstances. However, benefits will be set at an appropriate level against market practice and needs for specific roles and individual circumstances.</p>	None
Pension <i>Provides a market-competitive benefit in order to attract the talent required to execute the strategy and provide a market-competitive level of provision for post-retirement income</i>	<p>The Group operates a defined contribution scheme. Executive Directors are provided with a contribution to this scheme or a cash allowance of equivalent value. Base salary is the only pensionable element of remuneration.</p> <p>The same general approach applies to all employees, although contribution levels vary by seniority.</p>	<p>Company contribution (or cash equivalent) of up to 30% of salary.</p>	None

Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Annual bonus <i>To incentivise delivery of corporate strategy on an annual basis and reward delivery of superior performance</i> <i>The deferred portion of the bonus supports longer-term shareholder alignment</i>	<p>The level of bonus paid each year is determined by the Committee after the year end based on performance against targets</p> <p>A portion of the annual bonus is paid in cash shortly after the financial year end with the remaining portion deferred for three years in Bodycote shares (see details below) Vesting of the deferred shares is not subject to further performance conditions (please see the 2016 AGM Notice for a summary of the Plan)</p> <p>Dividend equivalents are payable in respect of the shares which vest</p> <p>From 2018 onwards, 35% of any bonus earned is deferred into shares for three years, conditional on continued employment until vesting date</p> <p>Transitional treatment applies to deferral for 2016 and 2017 For 2016, any bonus earned over 130% of base salary is deferred into shares</p> <p>For 2017, 15% of any bonus paid up to a value of 130% of base salary is deferred, with bonus earned over 130% also deferred in full The deferral above 130% of salary would be capped so that no more than 35% of the total bonus is deferred</p> <p>Malus provisions apply for the duration of the performance period and to shares held under deferral</p> <p>Clawback provisions apply to cash amounts paid for three years following payment</p> <p>Malus and/or clawback may be applied in the following scenarios</p> <ul style="list-style-type: none"> ■ Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company; ■ The assessment of any performance condition or condition was based on error, or inaccurate or misleading information, ■ The discovery that any information used to determine the cash payment under the bonus or the number of shares subject to deferral was based on error, or inaccurate or misleading information, or ■ Action or conduct of a participant which amounts to fraud or gross misconduct <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required</p>	<p>The maximum potential is 200% of base salary for the CEO and 150% of base salary for the CFO and other Executive Directors</p> <p>At the threshold performance level there will normally be no more than 30% vesting</p> <p>Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full</p>	<p>The Committee considers the performance conditions selected for the annual bonus to appropriately support the Company's strategic objectives and provide a balance between generating profit and cash to enable the Group to pay a dividend, reward its employees and make future investments, and achieve other strategic goals to drive long-term sustainable return</p> <p>The weighting of the measures and specific targets are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget Information on measures and weights that will apply for specific years will be included in the relevant year's Annual Report on Remuneration</p> <p>At least 70% of the bonus will be based on the achievement of Group financial targets</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate</p> <p>Discretion may also be exercised in cases where the Committee believe that the bonus outcome is not a fair and accurate reflection of business performance The exercise of this discretion may result in a downward or upward movement in the amount of bonus earned resulting from the application of the performance measures</p> <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report</p> <p>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the annual bonus plan in advance would not be in shareholder interests Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the annual bonus</p>

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Bodycote Incentive Plan (BIP) 2016 <i>To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management</i>	<p>Awards will be granted annually under the Bodycote Incentive Plan (please see the 2016 AGM Notice for a summary of the Plan) subject to a three year vesting period and stretching performance conditions measured over three years</p> <p>Dividend equivalents are payable in respect of the shares which vest</p> <p>The Committee retains the discretion in exceptional circumstances to adjust the vesting outcome or the targets for awards as long as the adjusted targets are no less stretching. In such an event the Committee will consult with major shareholders and will clearly explain the rationale for the changes in the report on remuneration</p> <p>Discretion may also be exercised in cases where the Committee believes that the outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the LTIP vesting resulting from the application of the performance measures</p> <p>Malus provisions apply for the duration of the performance period</p> <p>Clawback provisions apply to amounts for two years following vesting</p> <p>Malus and/or clawback may be applied in the following scenarios</p> <ul style="list-style-type: none"> ■ Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company, ■ The assessment of any performance condition or condition was based on error, or inaccurate or misleading information, ■ The discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information, or ■ Action or conduct of a participant which amounts to fraud or gross misconduct <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required</p>	<p>The maximum face value of an award which may be granted under the plan in any year is up to 175% of base salary for the Executive Directors</p> <p>At the threshold performance level there will normally be no more than 0% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full</p>	<p>Awards vest based on performance over three years against performance measures chosen by the Committee to align with business and strategic priorities</p> <p>The measures for Executive Directors are</p> <ul style="list-style-type: none"> ■ 50% ROCE ■ 50% headline EPS <p>In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level</p> <p>The Committee considers these performance conditions selected for the BIP to currently appropriately underpin the Company's strategic objectives. Due to the nature of the Company's activities the Committee consider ROCE to provide shareholders with an appropriate measure of how well the Company is performing and is being managed, while EPS provides a measure of the level of value created for shareholders. ROCE and EPS are our top two KPIs as shown on page 16 of the Annual Report</p> <p>The Committee may adjust the performance measures attaching to awards and the weighting of these measures if it feels this will create greater alignment with business and strategic priorities</p> <p>A significant change to the measures used would only be adopted following consultation with major shareholders</p> <p>The targets for the performance measures are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget. Details of performance targets will be included in the relevant year's Annual Report on Remuneration</p>

Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Shareholding requirement <i>To provide alignment of interest between participants and shareholders</i>	The Board operates a shareholding retention policy under which Executive Directors are expected, within five years from appointment, to build up a shareholding in the Company	The CEO and CFO (and other Executive Directors) are required to build up a holding of 200% and 150% of base salary respectively	None
Legacy awards – Co-Investment Plan (CIP) <i>To provide a link between short- and long-term incentive arrangements and to provide further alignment with shareholders</i> <i>Final award made in 2015</i>	The CIP provides for the grant of awards of performance based matching shares to participants on an annual basis in a maximum ratio of 1:1 to the gross investment made in deferred shares. The deferred shares must be held for at least three years. The vesting of matching shares will be based on share price related performance conditions as determined by the Committee. Dividend equivalents are payable in respect of the matching shares which vest	Executive Directors are invited annually to purchase shares up to 40% of basic salary (net of tax) against which performance based matching shares are granted on a 1:1 basis	The matching shares are subject to an absolute Total Shareholder Return (TSR) performance measure which is expressed as percentage Compound Annual Growth Rate (CAGR) in excess of CPI ■ Threshold performance results in a 0.5:1 match ■ Maximum performance results in a 1:1 match
Legacy awards – Bodycote Incentive Plan (BIP) 2006 <i>To incentivise delivery of long-term shareholder value</i> <i>Aids retention of senior management</i> <i>Final award made in 2015</i>	Awards are granted annually under the Bodycote Incentive Plan subject to a three year vesting period and stretching performance conditions measured over three years. Shares delivered following the vest of an award attract additional dividend shares calculated on the basis of the re-investment back into shares of the dividend that would have been received had the shares been beneficially held. The Committee retains the discretion in exceptional circumstances to adjust the vesting outcome or the targets for awards as long as the adjusted targets are no less stretching. In such an event the Committee will consult with major shareholders and will clearly explain the rationale for the changes in the report on remuneration. Malus provisions apply for the duration of the performance period and to shares held under deferral.	The maximum face value of an award which may be granted under the plan in any year is up to 175% of base salary for the Executive Directors. At the threshold performance level there will normally be no more than 0% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.	Awards vest based on performance over three years against performance measures chosen by the Committee to align with business and strategic priorities. For recent grants, the measures for Executive Directors have been: ■ 50% ROCE ■ 50% headline EPS In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level.

Notes to the Remuneration Policy table

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out on pages 66 to 75 where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes “payments” include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment being “agreed” at the time the award is granted.

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

Non-Executive Director (NED) fee policy

The policy on Non-Executive Director (NED) and Chairman fees is set out below

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Fees for Non-Executive Directors <i>To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy</i>	<p>The fees for the non-executives are determined by the Chairman and the Group Chief Executive</p> <p>The fee for the Chairman is reviewed by the Board in the absence of the Chairman</p> <p>The Chairman and non-executive fees are reviewed on an annual basis. When reviewing fees, the primary source of comparative market data is FTSE 250 companies and other companies of similar size and complexity, as appropriate</p> <p>The fees for the Chairman and non-executives are set at a level that will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. The fees reflect the time commitment and responsibilities of the roles</p> <p>The Chairman and Non-Executive Directors are not entitled to any pension or other employment benefits or to participate in any incentive scheme</p> <p>Appropriate benefits may be provided to non-executives and the Chairman from time to time. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these</p>	<p>Fees for Non-Executive Directors for the following year are set out in the statement of implementation of policy on page 57</p> <p>The Company's policy is that the Chairman and Non-Executive Directors receive a fixed fee for their services as members of the Board and its Committees. The fee structure may also include additional fees for chairing a Board Committee and/or further responsibilities (for example, Senior Independent Directorship)</p> <p>In line with the Articles of Association, accumulative total fees for Non-Executive Directors are capped at £500,000 p a</p>	None

Fees retained for external Non-Executive directorships

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

Statement of consideration of employment conditions elsewhere in the Group

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

The Committee does not consult directly with employees when formulating Executive Director pay policy. However, it does take into account information provided by the Human Resources function on pay and conditions across the Company, and considers these as part of its discussions and decision making, along with feedback from employee satisfaction surveys.

In formulating Executive Director pay policy, the Committee receives information on all employee pay conditions throughout the Group. The Committee does not use any remuneration comparison metrics.

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

Board report on remuneration continued

Statement of consideration of shareholders' views

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

In developing the proposed Remuneration Policy for 2016 and beyond the Remuneration Committee engaged extensively with the Company's key shareholders and their representative bodies. Through this process the Remuneration Committee took on board the feedback received and refined the proposed Remuneration Policy as appropriate to ensure it meets the expectations of our shareholders.

Approach to recruitment remuneration

When recruiting new Executive Directors, the Company's policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior executives, and that offered by other FTSE 250 companies and other companies of similar size and complexity. New Executive Directors will generally be appointed on remuneration packages with the same structure and pay elements as described in the pay policy table on pages 66 to 70. Each element of remuneration to be included in the package offered to a new director would be considered separately and collectively in this context.

Component	Policy
General	<p>The Company's policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled.</p> <p>The initial notice period may be longer than the Company's one year policy (up to a maximum of two years). However, this will reduce by one month for every month served, until the Company's policy position is reached.</p>
Base salary	Base salary levels will be set at an appropriate level to recruit the best candidate in consideration of the new recruit's existing salary, location, skills and experience and expected contribution to the new role, the current salaries of other Executive Directors in the Company and current market levels for the role.
Other benefits	Other benefits will be considered in light of the provision in place for the other Executive Director(s). If it is in the best interests of the Company and shareholders, the Committee may consider providing additional benefits, potentially including relocation costs, tax equalisation or advisers' fees.
Pension	Pension will be considered in light of the retirement arrangements which are in place for the other Executive Director(s) with a contribution level considered by the Committee to be appropriate in light of the new recruit's package as a whole, market practice at the time and on a broadly equivalent basis to existing provisions for other executives.
Annual bonus	Normal awards will be made under the annual bonus plan in line with the Remuneration Policy. The Executive Director may be invited to participate in the bonus on a pro-rated basis in the first year of appointment.
Long-term incentives	<p>Normal awards will be made under the BIP in line with the Remuneration Policy. The Executive Director may be invited to participate in 'in flight' BIP awards on a pro-rated basis when appointed.</p> <p>The Company is required to set out the maximum amount of variable pay which could be paid to a new director in respect of his/her recruitment. In order to provide the Company with sufficient flexibility in a recruitment scenario, the Committee has set this figure as 450% of base salary. This covers the maximum annual bonus and the maximum face value of any long-term incentive awards. This level of variable pay would only be available in exceptional circumstances, and in order to achieve such a level of variable pay, stretching targets would need to be met. For the avoidance of doubt, this 450% variable pay limit excludes the value of any "buyout" payments or awards associated with forfeited awards.</p>
Replacement awards	For an external appointment, although there are no plans to offer additional cash and/or share-based payments on recruitment, the Committee reserves the right to do so when it considers this to be in the best interests of the Company and shareholders. Such payments may take into account remuneration relinquished when leaving the former employer and would reflect the nature, time horizons and performance requirements attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment. The Committee may make awards on hiring an external candidate to "buyout" awards which will be forfeited on leaving the previous employer. Our approach to this is to carry out a detailed review of the awards which the individual will lose and calculate the estimated value of them. In doing so, we will consider the vesting period, the option exercise period if applicable, whether the awards are cash or share based, performance related or not, the Company's recent performance and payout levels and any other factors we consider appropriate. If a buyout award is to be made, the structure and level will be carefully designed and will generally reflect and replicate the previous awards as accurately as possible. We will make the award subject to appropriate malus and clawback provisions in the event that the individual resigns or is summarily terminated within a certain timeframe. An explanation will be provided at the time of recruitment of why a buyout award has been granted.
Internal promotions	For internal promotions any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements.

Shareholders will be informed of any director appointment and the individual's remuneration arrangements as soon as practicable following the appointment via an announcement to the regulatory news services

Fee levels for a new Chairman or new Non-Executive Directors will be determined in accordance with the policy set out on page 71

Service contracts

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

A summary of the key terms of the Executive Directors' service contracts is set out below. Note that this section has been revised to include the service contract of D Yates

	S.C. Harris, Group Chief Executive	D.F. Landless, Group Finance Director (retired 1 January 2017)	D. Yates, Group Finance Director designate – appointed Chief Financial Officer on 2 January 2017
Date of service contract	6 October 2008	26 September 2001	1 November 2016
Notice period	12 months	12 months	12 months
Remuneration	<ul style="list-style-type: none"> ■ Annual base salary ■ Potential for cash in lieu of pension ■ Reimbursement of expenses (if satisfactory evidence provided) ■ Private medical insurance ■ Company car allowance ■ Entitlement to receive an annual performance-related bonus award 	<ul style="list-style-type: none"> ■ Annual base salary ■ Potential for cash in lieu of pension ■ Reimbursement of expenses (if satisfactory evidence provided) ■ Private medical insurance ■ Company car allowance ■ Entitlement to receive an annual performance-related bonus award ■ Entitlement to one year's remuneration if employment is terminated on a change of control 	<ul style="list-style-type: none"> ■ Annual base salary ■ Potential for cash in lieu of pension ■ Reimbursement of expenses (if satisfactory evidence provided) ■ Private medical insurance ■ Company car allowance ■ Entitlement to receive an annual performance-related bonus award ■ Entitlement to a reasonable relocation package if D Yates relocates within 30 months of starting date of 1 November 2016
Termination	Company has right to terminate on payment of a termination payment with agreement of executive	Company has right to terminate on payment of a termination payment	Company has right to terminate on payment of a termination payment
Non-competition	During employment and for 12 months thereafter	During employment and for 12 months thereafter	During employment and for 12 months thereafter

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

Board report on remuneration continued

Director	Date of appointment	Notice period
A M Thomson	1 December 2007	6 months
P Larmon	13 September 2016	6 months
E Lindqvist	1 June 2012	6 months
I B Duncan	17 November 2014	6 months
A Quinn	1 January 2018	6 months
L Chahbazi	1 January 2018	6 months

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

The initial terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the next AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

All directors will be put forward for re-election by shareholders on an annual basis.

Termination remuneration policy

It is the Company's policy that Executive Directors have service contracts with a one-year notice period and terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer. All future appointments to the Board will comply with this requirement. This section of the report has been revised to reflect the service contract of Dominique Yates, Group CFO, which operates under different terms to that of the CEO and the former FD.

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

Component	Policy
Compensation for loss of office in service contracts	<p>Currently, under the terms of the Chief Executive's contract, the Company may at its choice, in lieu of giving notice, terminate an Executive Director's service contract by making a payment equivalent to, one year's annual base salary, 25% of base salary in respect of all other remuneration and benefits (other than annual bonus and incentives) and annual bonus equal to the average bonus paid up to three years prior to the date of notice</p> <p>Under the terms of the Chief Financial Officers' contract, the contract is terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer</p>
Treatment of cash element of the bonus under Plan rules	<p>If termination is by way of death, injury, illness, disability, redundancy, retirement or any other circumstances the Committee determines (a "good leaver"), the level of bonus will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year. The Committee retains the discretion</p> <ul style="list-style-type: none"> ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders, ■ not to pro-rate the bonus to time. The Committee's policy is that it will pro-rate bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders <p>Under all other circumstances no bonus will be earned on cessation of employment (other than set out above in the legacy arrangements for current Executive Directors)</p>
Treatment of unvested deferred bonus awards under Plan rules	<p>If termination is by way of death, injury, illness, disability, redundancy, retirement or any other circumstances the Committee determines (a "good leaver"), deferred shares may be released to the participant at the normal vesting date</p> <p>Under all other circumstances unvested awards will lapse on cessation of employment</p> <p>The Committee has the following elements of discretion</p> <ul style="list-style-type: none"> ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders, ■ to vest deferred shares at the end of the original deferral period or at the date of cessation. The Committee's policy is that shares will vest on the original date of vesting. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation
Treatment of unvested BIP 2016, BIP 2006 and CIP awards	<p>On cessation of employment, awards under the BIP and CIP will lapse in full, unless the Committee determines that the individual is a good leaver (see above for definition). In instances where the Committee determines that awards should not lapse in full, awards will normally vest at the normal vesting date, pro-rated for time served and subject to the achievement of the original performance conditions</p> <p>The Committee has the following elements of discretion</p> <ul style="list-style-type: none"> ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders, ■ to measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation, and ■ to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Committee's policy is that it will pro-rate awards for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders
Exercise of discretion	<p>In the event that an Executive Director leaves the Company, the Committee's policy for exit payments is to consider the reasons for cessation and consequently whether any exit payments other than those contractually required are warranted</p> <p>Further, in the event of a compromise or settlement agreement, the Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements</p>
Change of control	<p>Our policy is not to have a change in control clause in Executive Directors' service contracts. Neither S.C. Harris nor D. Yates' contract have a change of control clause. To the extent that executive contracts are renewed, or new appointments made, the Committee will continue to adopt a policy of not having change of control clauses in service contracts. In any case, legally appropriate factors would be taken into account to mitigate any compensation payment, covering basic salary, annual incentives and benefits, which may arise on the termination of employment of any Executive Director, other than payments made on a change in control or for payments in lieu of notice</p> <p>On change of control the awards under the Company's incentive plans will generally vest subject to performance and time apportionment as determined by the Committee and in accordance with the rules of the relevant Plan</p>

Directors' responsibilities statement

Responsibility of directors for the preparation of the Annual Report and financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement of the directors in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole,
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 6 March 2018 and is signed on its behalf by

S.C. Harris
Group Chief Executive
6 March 2018

D. Yates
Chief Financial Officer
6 March 2018

Independent auditor's report

To the Members of Bodycote plc

Opinion on financial statements of Bodycote plc

Opinion

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" and;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Bodycote plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise

- the Consolidated Income Statement,
- the Consolidated Statement of Comprehensive Income,
- the Consolidated and Parent Company Statements of Financial Position,
- the Consolidated Cash Flow Statement,
- the Consolidated and Parent Company Statements of Changes in Equity,
- the Group and Company Accounting Policies,
- the related notes 1 to 29 to the Group financial statements, and
- the related notes 1 to 12 to the Parent Company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice)



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were <ul style="list-style-type: none">■ Impairment of goodwill and intangible fixed assets in Europe ST■ Taxation accounting – valuation of certain tax structure provisions■ Pensions – UK defined benefit scheme liability assumptions■ Revenue recognition – manual adjustments to revenue
	Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with 
Materiality	The materiality that we used for the group financial statements was £5.6 million which was determined on the basis of 5% of expected pre-tax profit.
Scoping	As a consequence of the audit scope determined, we achieved coverage of approximately 73% of revenue, 78% of profit before tax and 79% of net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of the removal of the completeness and accuracy of environmental provisions as a key audit matter for the 2017 audit report, and the addition of the potential fraud risk in relation to revenue recognition, as outlined in further detail below.

Independent auditor's report continued

To the Members of Bodycote plc

Conclusions relating to going concern, principal risks and viability statement

Going concern

- We have reviewed the directors' statement on page 24 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

- the disclosures on pages 25-29 that describe the principal risks and explain how they are being managed or mitigated,
- the directors' confirmation on page 76 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity, or
- the directors' explanation on page 24 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In 2017 we no longer consider the completeness and accuracy of environmental remediation provisions to be a key audit matter. This assessment is based on the stable nature of the site portfolio and associated environmental obligations across the Group, and support provided by third-party environmental specialist valuation reports.

We have included a new key audit matter for 2017 in relation to the fraud risk in revenue recognition, focused on the risk of manual adjustments made to revenue, which has been included following consideration of the nature of revenue transactions recorded by the Group and the typical sales cycle for services provided, as described further within the Key Audit Matter below.

We have also refined our key audit matter in relation to impairment to focus on intangible fixed assets (including goodwill) balances for the Europe ST cash generating unit ("CGU"), as opposed to tangible and intangible fixed assets across the whole business.

Impairment of intangible fixed assets (including goodwill)

Key audit matter description	<p>The Group has a significant non-current asset base relating to intangible assets (including goodwill) of £201.0m (2016 £206.7m) as shown in notes 11 and 12. Our risk assessment procedures have pinpointed our key audit matter with regards to impairment to focus on the Europe ST CGU (which has £12.6m of goodwill allocated (2016 £12.6m)), due to the continued adverse performance related to the oil and gas markets served by this CGU.</p> <p>Performing an impairment review of the non-current assets within this CGU requires the exercise of judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11, and is included as an area of focus in the Report of the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>We challenged the assumptions used in the impairment model for intangible assets within the Europe ST CGU. As part of our procedures we:</p> <ul style="list-style-type: none"> ■ We challenged the assumptions used in the impairment model for intangible assets within the Europe ST CGU. As part of our procedures we ■ considered the appropriateness of the growth rate assumptions by comparing them to historical trading performance and World Bank historical GDP data for the markets served by Europe ST, and reviewing and challenging management's budget for 2018, ■ considered the impact of the sensitivities performed by management in assessing whether they reflect a reasonable possible change scenario, and ■ assessed the appropriateness of the assumptions concerning the discount rate applied by engaging our internal valuation specialists to review the inputs used to determine the discount rate applied by comparing them against external market data.
Key observations	Based on the procedures performed, no impairment was noted and we have concluded that the assumptions in the impairment model are appropriate.

Taxation – valuation of certain tax structure provisions

Key audit matter description	The tax risk concerns the judgements and estimates applied in the determination of provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements as described as an area of focus in the Report of the Audit Committee.
How the scope of our audit responded to the key audit matter	In conjunction with our taxation audit specialists, we have assessed the assumptions and judgements concerning the adequacy of certain tax structure provisions by challenging management's assumptions, reviewing the available correspondence from the various tax authorities and drawing on the experience of our taxation specialists in respect of similar situations.
Key observations	From the work performed above we are satisfied that the provisions held on the balance sheet for certain tax structure positions are reasonable.

Pensions – UK defined benefit scheme liability assumptions

Key audit matter description	This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's UK defined benefit scheme liability of £109.9m (2016 £126.6m) within the net UK defined benefit surplus of £2.4m (2016 liability of £3.6m) as shown in note 28. The valuation of the Group's IAS 19 liability involves significant judgement in the choice of discount rate used and in the key sources of estimation uncertainty in particular in relation to the discount rate assumptions, as described in the Group's accounting policies, and is included as an area of focus in the Report of the Audit Committee.
How the scope of our audit responded to the key audit matter	We have assessed the appropriateness of the assumptions underpinning the valuation of the scheme liabilities. Specifically we challenged the discount rate, inflation and mortality assumptions applied in the calculation by using our internal pension specialists to benchmark the assumptions applied against comparable third party data and assessed the appropriateness of the assumptions in the context of the Group's own position.
Key observations	From the work performed we are satisfied that the assumptions applied in respect of the valuation of the Group's IAS 19 UK defined benefit scheme liabilities are reasonable. We consider the assumptions to be towards the prudent end of our benchmarked range.

Independent auditor's report continued

To the Members of Bodycote plc

Revenue recognition - manual adjustments to revenue

Key audit matter description When assessing the potential risk of fraud in relation to revenue recognition, we have considered the nature of the automated and manual transactions recorded across the Group, considering the typical sales cycle for the services provided by the Group as described in the Group's accounting policies, and have determined that the key audit matter in relation to fraud is pinpointed to the risk of inappropriate manual adjustments being recorded in revenue

How the scope of our audit responded to the key audit matter We have profiled the population of journal entries made throughout the year in order to identify manual adjustments made to revenue and have tested the identified population to validate their authenticity and commercial substance

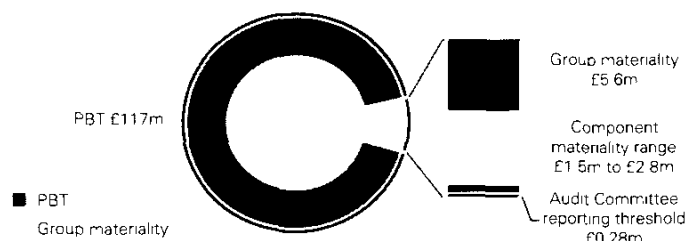
Key observations From the work performed we have not noted any manual adjustments to revenue that we would not expect in the usual course of business, or that cannot be supported

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work

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

	Group financial statements	Parent company financial statements
Group materiality	£5.6 million (2016: £4.8 million)	£4.5 million (2016: £3.6 million)
Basis for determining materiality	5% of expected pre-tax profit (2016: 5% of pre-tax profit)	The parent company materiality represents 1% (2016: 1%) of equity which is capped at 80% (2016: 80%) of Group materiality
Rationale for the benchmark applied	Pre-tax profit is determined to be the most stable basis of underlying business performance	As a non-trading parent company, equity is the key driver of the company



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.28 million (2016: £0.20 million) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level

Based on this assessment, we focused our Group audit scope primarily on the audit work relating to twelve components across nine core locations, being USA, UK, France, Germany, Sweden, the Netherlands, Czech Republic, Turkey, and Mexico. Components within China, Italy and Poland were removed from Group scope as part of our risk assessment process to pinpoint our focus and attention to material components where the key audit matters and judgements affecting the Group financial statements are expected. The parent company is located in the UK and audited directly by the Group audit team.

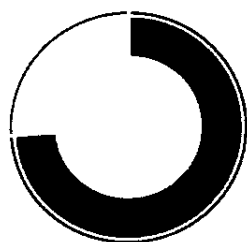
As a consequence of the audit scope determined, we achieved coverage of approximately 73% (2016: 86%) of revenue, 78% (2016: 92%) of profit before tax and 79% (2016: 90%) of net assets. Our audit work at each location was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. Component materiality, excluding the Parent Company, ranged from £1.5m to £2.8m (2016: £0.5m to £2.5m).

The Group audit team continued to follow a program of planned visits that has been designed so that a senior member of the Group audit team visits each of the significant finance function locations included as full scope for the Group audit at least once every three years. During the year, senior members of the Group audit team have visited the US, UK, France and the Czech Shared Service Centre.

In years when we do not visit a significant component we include the component audit team in our team briefing, discuss their risk assessment, attend close meetings by conference call and review documentation of the findings from their work.

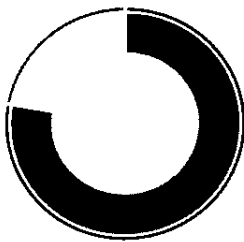
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Revenue



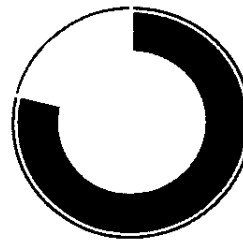
■ Full audit scope 73%
Review at Group level 26%

Profit before tax



■ Full audit scope 78%
Review at Group level 22%

Net assets



■ Full audit scope 79%
Review at Group level 21%

Independent auditor's report continued

To the Members of Bodycote plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit, or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee, or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns

We have nothing to report in respect of these matters..

Independent auditor's report continued

To the Members of Bodycote plc

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2002 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ending 31 December 2003 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Mullins FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
6 March 2018

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue		690.2	600.6
Cost of sales and overheads		(570.8)	(505.5)
Operating profit prior to exceptional items		119.4	95.1
Acquisition costs	5	–	(0.6)
Operating profit	3	119.4	94.5
Investment revenue	6	0.1	–
Finance costs	7	(2.5)	(2.6)
Profit before taxation		117.0	91.9
Tax impact in relation to change in US tax rate		6.4	–
Taxation		(26.1)	(24.9)
Taxation charge	8	(19.7)	(24.9)
Profit for the year		97.3	67.0
Attributable to			
Equity holders of the parent		97.1	67.0
Non-controlling interests		0.2	–
		97.3	67.0
Earnings per share	10	Pence	Pence
Basic		51.0	35.2
Diluted		51.0	35.2

All activities have arisen from continuing operations

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	97.3	67.0
Items that will not be reclassified to profit or loss:		
Actuarial gain on defined benefit pension schemes	6.7	(5.0)
Tax on items not reclassified	(1.0)	1.0
Total items that will not be reclassified to profit or loss	5.7	(4.0)
Items that may be reclassified subsequently to profit or loss:		
Exchange losses on translation of foreign operations	(11.7)	65.5
Cumulative exchange differences recycled to profit or loss on disposal of businesses/group reorganisation	–	(2.2)
Total items that may be reclassified subsequently to profit or loss	(11.7)	63.3
Other comprehensive (expense)/income for the year	(6.0)	59.3
Total comprehensive income for the year	91.3	126.3
Attributable to		
Equity holders of the parent	91.2	126.3
Non-controlling interests	0.1	–
	91.3	126.3

Consolidated balance sheet

At 31 December 2017

	Note	2017 £m	2016 £m
Non-current assets			
Goodwill	11	157.6	160.9
Other intangible assets	12	43.4	45.8
Property, plant and equipment	13	520.5	509.0
Deferred tax assets	19	24.5	32.5
Trade and other receivables	15	1.0	0.4
		747.0	748.6
Current assets			
Inventories	14	16.4	16.6
Derivative financial instruments	18	–	0.1
Current tax assets		12.8	19.0
Trade and other receivables	15	140.4	126.3
Cash and bank balances	15	41.0	12.0
Assets held for sale	16	2.1	1.8
		212.7	175.8
Total assets		959.7	924.4
Current liabilities			
Trade and other payables	20	138.4	133.5
Current tax liabilities		29.2	36.5
Obligations under finance leases		–	0.1
Borrowings	17	1.4	5.8
Provisions	21	8.7	11.7
		177.7	187.6
Net current assets/(liabilities)		35.0	(11.8)
Non-current liabilities			
Borrowings	17	–	5.0
Retirement benefit obligations	28	15.2	21.5
Deferred tax liabilities	19	57.2	68.8
Provisions	21	8.7	8.8
Other payables	20	3.4	4.4
		84.5	108.5
Total liabilities		262.2	296.1
Net assets		697.5	628.3
Equity			
Share capital	22	33.1	33.1
Share premium account		177.1	177.1
Own shares		(7.2)	(8.0)
Other reserves		141.0	133.9
Translation reserves		45.9	57.5
Retained earnings		307.1	234.3
Equity attributable to equity holders of the parent		697.0	627.9
Non-controlling interests		0.5	0.4
Total equity		697.5	628.3

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 6 March 2018

They were signed on its behalf by

S.C. Harris
Director

D. Yates
Director

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Net cash from operating activities	24	159.9	125.9
Investing activities			
Purchases of property, plant and equipment		(73.3)	(64.7)
Proceeds on disposal of property, plant and equipment and intangible assets		3.7	7.6
Purchases of intangible fixed assets		(5.2)	(6.0)
Acquisition of businesses		(14.2)	(23.7)
Disposal of sundry investments		–	0.3
Disposal of businesses		–	1.9
Net cash used in investing activities		(89.0)	(84.6)
Financing activities			
Interest received		0.1	–
Interest paid		(2.1)	(2.3)
Dividends paid		(30.6)	(48.1)
Repayments of bank loans		(5.0)	(2.3)
Payments of obligations under finance leases		(0.1)	(0.1)
New bank loans raised		–	5.0
Net cash used in financing activities		(37.7)	(47.8)
Net increase/(decrease) in cash and cash equivalents		33.2	(6.5)
Cash and cash equivalents at beginning of year		6.2	12.4
Effect of foreign exchange rate changes		0.2	0.3
Cash and cash equivalents at end of year	24	39.6	6.2

Consolidated statement of changes in equity

For the year ended 31 December 2017

	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 2016	33.1	177.1	(9.3)	134.1	(5.8)	220.0	549.2	0.4	549.6
Net profit for the year	–	–	–	–	–	67.0	67.0	–	67.0
Exchange differences on translation of overseas operations	–	–	–	–	65.5	–	65.5	–	65.5
Cumulative exchange differences recycled to profit or loss on disposal of businesses	–	–	–	–	(2.2)	–	(2.2)	–	(2.2)
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(4.0)	(4.0)	–	(4.0)
Total comprehensive income for the year	–	–	–	–	63.3	63.0	126.3	–	126.3
Acquired in the year/settlement of share options	–	–	1.3	(0.7)	–	(0.6)	–	–	–
Share-based payments	–	–	–	0.5	–	–	0.5	–	0.5
Dividends paid	–	–	–	–	–	(48.1)	(48.1)	–	(48.1)
31 December 2016	33.1	177.1	(8.0)	133.9	57.5	234.3	627.9	0.4	628.3
Net profit for the year	–	–	–	–	–	97.1	97.1	0.2	97.3
Exchange differences on translation of overseas operations	–	–	–	–	(11.6)	–	(11.6)	(0.1)	(11.7)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	5.7	5.7	–	5.7
Total comprehensive income for the year	–	–	–	–	(11.6)	102.8	91.2	0.1	91.3
Acquired in the year/settlement of share options	–	–	0.8	(0.7)	–	–	0.1	–	0.1
Share-based payments	–	–	–	7.8	–	–	7.8	–	7.8
Deferred tax on share-based payment transactions	–	–	–	–	–	0.6	0.6	–	0.6
Dividends paid	–	–	–	–	–	(30.6)	(30.6)	–	(30.6)
31 December 2017	33.1	177.1	(7.2)	141.0	45.9	307.1	697.0	0.5	697.5

Included in other reserves is the capital redemption reserve of £129.8m (2016: £129.8m) and the share-based payments reserve of £10.4m (2016: £3.3m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2017, 1,171,190 (2016: 1,289,378) ordinary shares of 17.3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 26).

Group accounting policies

Year ended 31 December 2017

Basis of accounting

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of EU IAS Regulation as adopted for use in the EU.

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

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

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

Going concern

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

Key sources of estimation uncertainty

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

Taxation

The Group is subject to taxes in numerous jurisdictions. Provisions for corporation tax contingencies require the directors to estimate the level of corporation tax that will be payable based upon the interpretation of applicable tax legislation on a country-by-country basis and an assessment of the likely outcome of any open tax computations. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision, deferred tax provisions and income statement in the period in which such determination is made. Please refer to note 19 on page 117 for further details.

Group accounting policies continued

Year ended 31 December 2017

Retirement benefit schemes

Accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The discount rate applied in the calculation of scheme liabilities is a key source of estimation uncertainty for the Group. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 92 and see note 28 on page 123 for further details.

Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (above), that have had a significant effect on the amounts recognised in the financial statements.

Investments in associates

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

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

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

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

Non-current assets held for sale

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

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

Goodwill

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes

Revenue is recognised on the completion of services rendered

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established

Other operating income represents scrap sales, rents receivable and other operating income

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability

Finance charges are charged directly against income

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term

Foreign currencies

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

Exchange differences are recognised in profit or loss in the period in which they arise except for

- exchange differences on transactions entered into to hedge certain foreign currency risks (see page 95), and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in the consolidated statement of comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment

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

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

Borrowing costs

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

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned

Operating profit

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

Group accounting policies continued

Year ended 31 December 2017

Exceptional items

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

Retirement benefit costs

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

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

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

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

Net-interest expense or income is recognised within finance costs (see note 7)

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

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

Taxation

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Property, plant and equipment

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

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

Business combinations

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

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

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

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

Intangible assets

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

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

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

Amortisation is recognised within administration expenses.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Group accounting policies continued

Year ended 31 December 2017

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Equity instruments

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the customer or counterparty, or
- default or delinquency in payments.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derivative financial instruments

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

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

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

Hedge accounting

The Group uses foreign currency debt and cross currency swaps to hedge its exposure to changes in the underlying net assets of overseas operations arising from foreign exchange rate movements.

The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Note 18 sets out the details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Cash flow hedge

Cash flow hedging matches the cash flows of hedged items against the corresponding cash flow of the derivative. The effective part of any gain or loss on the derivative is recognised directly in other comprehensive income and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. To the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised in the consolidated statement of comprehensive income and accumulated in the hedging and translation reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement and is included in other operating expenses.

Gains and losses accumulated in equity are included in the income statement in the event that the foreign operation is disposed of.

Provisions

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

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

Share-based payments

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

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

Group accounting policies continued

Year ended 31 December 2017

General information

Bodycote plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 37.

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

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

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pounds sterling, which is the functional and presentation currency of the Parent. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy on page 91.

Adoption of new and revised standards

In the current year, the following new and revised standards and interpretations have been adopted:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The above interpretations and revised standards have not had any material impact on the amounts reported in these financial statements or the disclosures required.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been endorsed by the EU):

- | | |
|-----------------------------|--|
| ■ IFRS 9 | Financial Instruments |
| ■ IFRS 15 | Revenue from contracts with customers |
| ■ Clarifications to IFRS 15 | Clarifications to IFRS 15 Revenue from contracts with customers |
| ■ IFRS 16 | Leases |
| ■ Amendments to IFRS 2 | Classification and measurement of share-based payment transactions |
| ■ IFRIC 22 | Foreign currency transactions and advance consideration |

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except in the case of IFRS 16, as described below:

- IFRS 9 is effective for annual periods beginning 1 January 2018 and will replace IAS 39 Financial Instruments. This standard covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model. The Group does not expect the transition to this standard to have a material impact on the financial statements.
- IFRS 15 is effective for annual periods beginning 1 January 2018 and will replace IAS 11 Construction Contracts and IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. Retrospective application in the comparative year ending 31 December 2017 is optional, however the Group does not expect to undertake this option. An initial assessment has been performed and it is not anticipated that transition to IFRS 15 will have a material impact on the Group.
- IFRS 16 is effective for annual periods beginning 1 January 2019, subject to EU endorsement, and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is low value. As at 31 December 2017, the Group holds a significant number of operating leases which currently, under IAS 17, are expensed on a straight line basis over the lease term. Depending on the choice of methodology permitted under IFRS 16, the Group may be obliged to reflect the impact of IFRS 16 in the comparative figures for 2018 in its accounts for the year ending 31 December 2019. The group will conclude on its choice of methodology during the current year. An initial assessment has been performed and it is anticipated that transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet. The Group will continue to monitor the impact until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

Notes to the consolidated financial statements

Year ended 31 December 2017

1. Alternative performance measures (APMs)

Bodycote uses various APMs, in addition to those reported under IFRS, as management believe these measures enable users of the financial statements to assess the underlying trading performance of the business. The APMs used include headline operating profit, headline profit before taxation, EBITDA, headline EBITDA, headline earnings per share (EPS), headline operating cash flow, free cash flow, net cash and return on capital employed (ROCE). These measures reflect the underlying performance of the business as they exclude the impact of amortisation of acquired intangible assets and exceptional items. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, also 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, operating cash-flow) and share schemes (headline operating profit, headline operating cash flow, ROCE, headline EPS).

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.

APMs are defined and reconciled to the IFRS statutory measure as follows

Headline operating profit

	2017 £m	2016 £m
Statutory operating profit	119.4	94.5
Add back		
Amortisation of acquired intangibles	4.5	4.5
Acquisition costs	–	0.6
Headline operating profit	123.9	99.6

Headline profit before taxation

	2017 £m	2016 £m
Profit before taxation	117.0	91.9
Add back		
Amortisation of acquired intangibles	4.5	4.5
Acquisition costs	–	0.6
Headline profit before taxation	121.5	97.0

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

	2017 £m	2016 £m
Operating profit	119.4	94.5
Depreciation and amortisation	64.3	59.7
Impairment of fixed assets	0.4	5.1
Profit on disposal of property, plant and equipment	(0.7)	(4.5)
Profit on disposal of businesses	–	(0.1)
Share-based payments	7.8	0.5
EBITDA	191.2	155.2
Add back exceptional items		
Acquisition costs	–	0.6
Headline EBITDA	191.2	155.8

Headline earnings per share

A detailed reconciliation is provided in note 10

Notes to the consolidated financial statements continued

Year ended 31 December 2017

1. Alternative performance measures (APMs) continued

Headline operating cash flow

	2017 £m	2016 £m
Cash generated by operations	182.8	146.3
Less		
Net capital expenditure	(74.8)	(63.1)
Add		
Restructuring cash flows	3.7	7.6
Acquisition expenses	–	0.6
Headline operating cash flow	111.7	91.4

Free cash flow

	2017 £m	2016 £m
Cash generated by operations	182.8	146.3
Less		
Net capital expenditure	(74.8)	(63.1)
Financing costs	(2.1)	(2.3)
Taxation	(22.9)	(20.4)
Free cash flow	83.0	60.5

Net cash

	2017 £m	2016 £m
Cash and bank balances	41.0	12.0
Bank overdrafts (included in borrowings)	(1.4)	(5.8)
Loans	–	(5.0)
Finance leases	–	(0.1)
Net cash	39.6	1.1

Return on capital employed

	2017 £m	2016 £m
Headline operating profit	123.9	99.6
Average capital employed ¹	642.5	582.3
Return on capital employed	19.3%	17.1%

¹ Average capital employed is calculated as average of opening (£627.2m) and closing (£657.8m) capital employed

Revenue and headline operating profit at constant exchange rates

Reconciled to revenue and headline operating profit in the table below

Year to 31 December 2017				
	ADE £m	AGI £m	Costs and eliminations £m	Consolidated £m
Revenue	273.1	417.1	–	690.2
Constant exchange rates adjustment	(10.5)	(21.6)	–	(32.1)
Revenue at constant exchange rates	262.6	395.5	–	658.1
Headline operating profit	64.2	74.2	(14.5)	123.9
Constant exchange rates adjustment	(2.4)	(4.0)	0.1	(6.3)
Headline operating profit at constant exchange rates	61.8	70.2	(14.4)	117.6

2. Business and geographical segments

The Group has 187 locations 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 on a monthly basis 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 divisional reporting structure of the Group

In accordance with the aggregation criteria of IFRS 8, the operating segments are aggregated into the Group's two key business areas, ADE and AGI, the split being driven by customer behaviour and requirements. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, while 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 2017 £m	AGI 2017 £m	Central costs and eliminations 2017 £m	Consolidated 2017 £m
Revenue				
Total revenue	273.1	417.1	–	690.2
Result				
Headline operating profit prior to share-based payments and unallocated central costs	65.6	77.3	–	142.9
Share-based payments (including social charges)	(1.4)	(3.1)	(4.6)	(9.1)
Unallocated central costs	–	–	(9.9)	(9.9)
Headline operating profit/(loss)	64.2	74.2	(14.5)	123.9
Amortisation of acquired intangible fixed assets	(1.5)	(3.0)	–	(4.5)
Operating profit/(loss) prior to exceptional items	62.7	71.2	(14.5)	119.4
Segment result	62.7	71.2	(14.5)	119.4
Investment revenue				0.1
Finance costs				(2.5)
Profit before taxation				117.0
Taxation				(19.7)
Profit for the year				97.3

Inter-segment sales are not material in either year

The Group does not rely on any individual major customers

Notes to the consolidated financial statements continued

Year ended 31 December 2017

2. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total ADE 2017 £m
Revenue				
Total revenue	126.0	145.7	1.4	273.1
Result				
Headline operating profit prior to share-based payments	30.7	34.7	0.2	65.6
Share-based payments (including social charges)	(0.5)	(0.9)	–	(1.4)
Headline operating profit	30.2	33.8	0.2	64.2
Amortisation of acquired intangible fixed assets	(0.3)	(1.2)	–	(1.5)
Operating profit prior to exceptional items	29.9	32.6	0.2	62.7
Segment result	29.9	32.6	0.2	62.7
Automotive & General Industrial	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total AGI 2017 £m
Revenue				
Total revenue	258.9	105.5	52.7	417.1
Result				
Headline operating profit prior to share-based payments	51.2	11.6	14.5	77.3
Share-based payments (including social charges)	(2.4)	(0.4)	(0.3)	(3.1)
Headline operating profit	48.8	11.2	14.2	74.2
Amortisation of acquired intangible fixed assets	(0.4)	(2.6)	–	(3.0)
Operating profit prior to exceptional items	48.4	8.6	14.2	71.2
Segment result	48.4	8.6	14.2	71.2
Group	ADE 2016 £m	AGI 2016 £m	Central costs and eliminations 2016 £m	Consolidated 2016 £m
Revenue				
Total revenue	250.9	349.7	–	600.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	56.3	57.9	–	114.2
Share-based payments (including social charges)	(0.7)	0.6	(0.6)	(0.7)
Unallocated central costs	–	–	(13.9)	(13.9)
Headline operating profit/(loss)	55.6	58.5	(14.5)	99.6
Amortisation of acquired intangible fixed assets	(1.5)	(3.0)	–	(4.5)
Operating profit/(loss) prior to exceptional items	54.1	55.5	(14.5)	95.1
Acquisition costs	–	(0.6)	–	(0.6)
Segment result	54.1	54.9	(14.5)	94.5
Finance costs				(2.6)
Profit before taxation				91.9
Taxation				(24.9)
Profit for the year				67.0

2. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total ADE 2016 £m
Revenue				
Total revenue	115.1	134.7	1.1	250.9
Result				
Headline operating profit prior to share-based payments	24.0	32.7	(0.4)	56.3
Share-based payments (including social charges)	(0.2)	(0.5)	–	(0.7)
Headline operating profit/(loss)	23.8	32.2	(0.4)	55.6
Amortisation of acquired intangible fixed assets	(0.3)	(1.2)	–	(1.5)
Operating profit prior to exceptional items	23.5	31.0	(0.4)	54.1
Segment result	23.5	31.0	(0.4)	54.1

Automotive & General Industrial	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total AGI 2016 £m
Revenue				
Total revenue	214.9	94.3	40.5	349.7
Result				
Headline operating profit prior to share-based payments	36.8	10.7	10.4	57.9
Share-based payments (including social charges)	0.4	0.1	0.1	0.6
Headline operating profit	37.2	10.8	10.5	58.5
Amortisation of acquired intangible fixed assets	(0.4)	(2.6)	–	(3.0)
Operating profit prior to exceptional items	36.8	8.2	10.5	55.5
Acquisition costs	(0.4)	(0.2)	–	(0.6)
Segment result	36.4	8.0	10.5	54.9

Other information

Group	ADE 2017 £m	AGI 2017 £m	Central costs and eliminations 2017 £m	Consolidated 2017 £m
Gross capital additions	33.6	39.7	5.2	78.5
Depreciation and amortisation	23.5	39.3	1.5	64.3
Balance sheet				
Assets				
Segment assets	352.6	530.2	76.9	959.7
Liabilities				
Segment liabilities	(60.2)	(133.2)	(68.8)	(262.2)
	292.4	397.0	8.1	697.5
Allocation of head office net liabilities	3.4	4.7	(8.1)	–
Adjusted segment net assets	295.8	401.7	–	697.5

Notes to the consolidated financial statements continued

Year ended 31 December 2017

2. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total ADE 2017 £m
Gross capital additions	23.4	9.3	0.9	33.6
Depreciation and amortisation	10.0	13.4	0.1	23.5
Balance sheet				
Assets				
Segment assets	168.0	179.9	4.7	352.6
Liabilities				
Segment liabilities	(30.8)	(28.4)	(1.0)	(60.2)
Segment net assets	137.2	151.5	3.7	292.4
Automotive & General Industrial	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total AGI 2017 £m
Gross capital additions	20.1	12.6	7.0	39.7
Depreciation and amortisation	23.6	10.5	5.2	39.3
Balance sheet				
Assets				
Segment assets	292.3	153.2	84.7	530.2
Liabilities				
Segment liabilities	(96.7)	(20.6)	(15.9)	(133.2)
Segment net assets	195.6	132.6	68.8	397.0
Group	ADE 2016 £m	AGI 2016 £m	Central costs and eliminations 2016 £m	Consolidated 2016 £m
Gross capital additions	25.8	39.0	5.9	70.7
Depreciation and amortisation	22.2	36.5	1.0	59.7
Balance sheet				
Assets				
Segment assets	343.1	514.8	66.5	924.4
Liabilities				
Segment liabilities	(67.8)	(122.4)	(105.9)	(296.1)
	275.3	392.4	(39.4)	628.3
Allocation of head office net liabilities	(16.2)	(23.2)	39.4	-
Adjusted segment net assets	259.1	369.2	-	628.3

2. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total ADE 2016 £m
Gross capital additions	10.5	13.0	2.3	25.8
Depreciation and amortisation	9.3	12.7	0.2	22.2
Balance sheet				
Assets				
Segment assets	142.7	196.9	3.5	343.1
Liabilities				
Segment liabilities	(29.7)	(36.3)	(1.8)	(67.8)
Segment net assets	113.0	160.6	1.7	275.3

Automotive & General Industrial	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total ADE 2016 £m
Gross capital additions	20.2	10.6	8.2	39.0
Depreciation and amortisation	21.7	10.5	4.3	36.5
Balance sheet				
Assets				
Segment assets	279.8	163.3	71.7	514.8
Liabilities				
Segment liabilities	(91.8)	(21.0)	(9.6)	(122.4)
Segment net assets	188.0	142.3	62.1	392.4

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	
	2017 £m	2016 £m	2017 £m	2016 £m
USA	236.8	219.0	272.1	298.9
France	111.9	97.6	78.1	73.8
Germany	91.4	69.9	86.5	85.4
UK	51.9	48.5	91.0	76.4
Sweden	38.9	36.1	36.8	37.5
Netherlands	29.4	25.3	22.7	22.6
Others	129.9	104.2	134.3	121.1
	690.2	600.6	721.5	715.7

Notes to the consolidated financial statements continued

Year ended 31 December 2017

3. Operating profit

	2017 £m	2016 £m
Revenue	690.2	600.6
Cost of sales	(429.9)	(378.4)
Gross profit	260.3	222.2
Other operating income	4.5	4.4
Distribution costs	(21.3)	(20.9)
Administration expenses	(118.6)	(101.7)
Other operating expenses	(1.0)	(4.4)
Headline operating profit	123.9	99.6
Amortisation of acquired intangible fixed assets	(4.5)	(4.5)
Operating profit prior to exceptional items	119.4	95.1
Exceptional items	–	(0.6)
Operating profit	119.4	94.5

Exceptional items comprise

	2017 £m	2016 £m
Acquisition costs	–	0.6
	–	0.6

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

	2017 £m	2016 £m
Net foreign exchange (gains)/losses	–	(0.5)
Inventory expensed	53.0	48.2
Depreciation of property, plant and equipment	58.1	54.1
Amortisation of intangible fixed assets	6.2	5.6
Gain on disposal of property, plant and equipment	(0.7)	(4.5)
Staff costs (see note 4)	283.8	239.5
Acquisition costs	–	0.6
Impairment loss on trade receivables	0.8	1.2
Impairment of fixed assets – recognised in operating profit	0.4	5.1

The analysis of auditor's remuneration on a worldwide basis is as follows

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries	0.7	0.7
Total audit fees	0.8	0.8
Audit related assurance services*	0.1	0.1
Total non-audit fees	0.1	0.1
	0.9	0.9

In addition to the amounts shown above, the auditor received fees of £7,000 (2016: £6,800) for the audit of the Group's pension schemes

Fees paid to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed

A description of the work of the Audit Committee is set out in the Audit Committee report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor

* This includes £0.1m (2016: £0.1m) for the review of the half year report

4. Staff costs

The average monthly number of employees (including executive directors) was

	2017 Number	2016 Number
ADE		
Western Europe	892	902
North America	827	812
Emerging markets	16	18
AGI		
Western Europe	1,945	1,825
North America	962	923
Emerging markets	688	616
Shared services	235	242
Head office	29	29
	5,594	5,367

	2017 £m	2016 £m
Their aggregate remuneration comprised		
Wages and salaries	242.5	203.4
Social security costs	33.1	29.6
Other pension costs	8.2	6.5
	283.8	239.5

Included in wages and salaries are share-based payments resulting in a charge of £78m (2016: £0.5m)

Included in other pension costs are £6.7m relating to defined contribution schemes (2016: £6.2m) and £1.5m relating to defined benefit schemes (2016: £0.3m)

Disclosure of individual directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board report on remuneration on pages 54 to 75 and form part of these financial statements

5. Exceptional items

	2017 £m	2016 £m
Acquisition costs	–	0.6
	–	0.6

Acquisition costs of Enril (2016: £0.6m) were expensed in the year

6. Investment revenue

	2017 £m	2016 £m
Other interest receivable	0.1	–
Total interest and investment revenue	0.1	–

All investment revenue relates to bank balances and other receivables

7. Finance costs

	2017 £m	2016 £m
Interest on bank overdrafts and loans*	0.1	0.2
Total interest expense	0.1	0.2
Net interest on the defined benefit pension liability	0.4	0.3
Other finance charges*	2.0	2.1
Total finance costs	2.5	2.6

* Amounts arising on financial liabilities measured at amortised cost

Notes to the consolidated financial statements continued

Year ended 31 December 2017

8. Taxation

	2017 £m	2016 £m
Current taxation – charge for the year	28.1	24.9
Current taxation – adjustments in respect of previous years	(6.3)	2.2
Deferred tax (see note 19)	(2.1)	(2.2)
	19.7	24.9

The Group has chosen to use a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison is 30.09% (2016: 32.36%).

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax inquiries 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.

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

	2017 £m	2016 £m
Profit before taxation	117.0	91.9
Tax at the weighted average country tax rate of 30.09% (2016: 32.36%)	35.2	29.7
Tax effect of expenses not deductible in determining taxable profit ¹	0.4	(0.4)
Impact of recognition or derecognition of deferred tax balances	(1.4)	2.1
Effect of long-term capital financing ²	0.7	(1.0)
Tax effect of other adjustments in respect of previous years		
Current tax ³	(7.0)	2.2
Deferred tax ³	4.3	(0.6)
Effect of financing activities between jurisdictions ²	(9.2)	(7.2)
Impact of trade and minimum corporate taxes	1.3	1.1
Impact of US Tax Cuts and Jobs Act treated as an exceptional item ⁴	(6.4)	-
Effect of changes in statutory tax rates on deferred tax assets and liabilities	(0.1)	(1.2)
Other tax risk provision movements	1.9	0.2
Tax expense for the year	19.7	24.9

Tax on items taken directly to equity is a credit of £0.5m (2016: £1.0m).

¹ Those costs in various territories not deductible in calculating taxable profits.

² The Group is externally financed by a mix of cash flows from operations, short-term borrowings, long-term loans and finance leases. Internally, operating subsidiaries are predominantly financed via intercompany loans. The charge includes provisions based on management's estimation of tax risk.

³ 2017 prior year adjustments in current and deferred tax relate to changes in assumptions and outcomes in relation to overseas tax credits and other claims, whilst the 2016 adjustments mainly relate to changes in overseas pensions assumptions.

⁴ Net exceptional impact of the passing of the Tax Cuts and Jobs Act in the US in December 2017, made up of (i) £6.8m one-off tax gain resulting from a revaluation of the Group's US deferred tax liabilities, and (ii) £0.4m tax charge on accumulated overseas profits of US entities.

9. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2016 of 10.8p (2015: 10.3p) per share	20.5	19.6
Special dividend for the year ended 31 December 2016 of Nil (2015: 10.0p) per share	–	19.0
Interim dividend for the year ended 31 December 2017 of 5.3p (2016: 5.0p) per share	10.1	9.5
	30.6	48.1
Proposed final dividend for the year ended 31 December 2017 of 12.1p (2016: 10.8p) per share	23.0	20.5
Proposed special dividend for the year ended 31 December 2017 of 25.0p (2016: 0.0p) per share	47.9	–

The proposed final dividend and special dividend are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in these financial statements.

The dividend is waived on shares held by the Bodycote International Employee Benefit Trust.

10. Earnings per share

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

	2017 £m	2016 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	97.1	67.0
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	190,250,855	190,166,794
Effect of dilutive potential ordinary shares		
Share options	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	190,250,855	190,166,794
	Pence	Pence
Earnings per share:		
Basic	51.0	35.2
Diluted	51.0	35.2
	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	97.1	67.0
Add back		
Amortisation of acquired intangible fixed assets (net of tax)	2.9	2.8
Acquisition costs (net of tax)	–	0.5
Less		
Impact of US Tax Cuts and Jobs Act treated as an exceptional item	(6.4)	–
Headline earnings	93.6	70.3
	Pence	Pence
Headline earnings per share:		
Basic	49.2	37.0
Diluted	49.2	37.0

Notes to the consolidated financial statements continued

Year ended 31 December 2017

11. Goodwill

	2017 £m	2016 £m
Cost		
At 1 January	222.5	200.6
Exchange differences	(4.1)	11.5
Recognised on acquisition of businesses	0.4	10.4
At 31 December	218.8	222.5
Accumulated impairment		
At 1 January	61.6	60.6
Exchange differences	(0.4)	1.0
At 31 December	61.2	61.6
Carrying amount	157.6	160.9

During the year a £0.4m hindsight adjustment was made to a 2016 acquisition

Goodwill acquired in a business combination is allocated, at acquisition, to the business units that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill has been allocated to the Group's cash generating units, which are summarised in the following operating segments

	2017 £m	2016 £m
ADE		
Western Europe	27.0	26.8
North America	47.5	49.0
AGI		
Western Europe	24.1	23.1
North America	52.5	55.9
Emerging markets	6.5	6.1
	157.6	160.9

The Group tests goodwill at least annually for impairment, or more frequently if there are indications that goodwill might be impaired

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for those calculations are the discount rates and growth rates in respect of future cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. This rate is risk adjusted, for specific countries, where the Group perceives a risk premium is appropriate. The rates used to discount the forecast cash flows for cash generating units are between 11.7% (2016: 13.4%) and 12.7% (2016: 14.4%). The recoverable amount is the sum of the discounted cash flows as forecast for the coming five years, together with a further estimate of cash flows in perpetuity.

The forecast sales in the initial 5 years reflect management's expectation of how sales will develop at this point in the economic cycle. This is based on the approved 2018 budget and a growth rate of up to 3% year on year. The expected profit margin reflects management's experience of each cash generating unit's profitability at the forecast level of sales. As outlined in the Business review, these forecasts take into account the current and expected economic environment both in respect of geography and market sectors. Annual growth in cash flows after five years are in the range 2.4% to 5.4% depending on the geographical region of the cash generating unit and are based on historical weighted average growth in GDP in the respective geographies.

11. Goodwill (continued)

If the goodwill allocated to a cash generating unit represents more than 15% of the Group's total goodwill carrying value, the cash generating unit is considered to be individually significant. The Group considers the North America ADE Heat Treatment and North America AGI Heat Treatment cash generating units to be significant cash generating units. The long term growth rates applied to cash flows after five years and the rates used to discount the forecast cash flows for these significant cash generating units are shown below.

Cash generating unit	Goodwill carrying value £m	Long term growth rate %	Discount rate %
North America ADE Heat Treatment	47.5	2.9	11.7
North America AGI Heat Treatment	52.5	2.9	11.7

The Group has conducted sensitivity analysis on the key assumptions applied to the value in use calculations for each cash generating unit. The separate sensitivity scenarios analysed include reduction in the forecast sales of 20% to 50% in the first year of the forecast and reduction of the long-term revenue growth assumptions of 50% to 100% from year five of the cash flows.

The Directors do not consider that there are any reasonable possible sensitivities for the business that could arise in the next 12 months that could result in a material impairment charge being recognised.

The Board has concluded that no impairment charge is required in 2017.

12. Other intangible assets

	Software £m	Non- complete agreements £m	Customer relationships £m	Total £m
Cost				
At 1 January 2016	28.8	2.9	35.0	66.7
Exchange differences	1.4	–	6.8	8.2
Additions	6.0	–	–	6.0
Acquired on acquisition of businesses	–	0.2	7.3	7.5
Disposals	(1.1)	–	–	(1.1)
At 1 January 2017	35.1	3.1	49.1	87.3
Exchange differences	(0.1)	–	(3.4)	(3.5)
Additions	5.2	–	–	5.2
Disposals	(0.3)	–	–	(0.3)
At 31 December 2017	39.9	3.1	45.7	88.7
Amortisation				
At 1 January 2016	13.3	2.3	15.9	31.5
Exchange differences	1.2	–	3.5	4.7
Charge for the year	1.1	0.7	3.8	5.6
Impairment loss	0.1	–	–	0.1
Disposals	(0.4)	–	–	(0.4)
At 1 January 2017	15.3	3.0	23.2	41.5
Exchange differences	(0.1)	–	(2.0)	(2.1)
Charge for the year	1.7	0.1	4.4	6.2
Disposals	(0.3)	–	–	(0.3)
At 31 December 2017	16.6	3.1	25.6	45.3
Carrying amount				
At 31 December 2017	23.3	–	20.1	43.4
At 31 December 2016	19.8	0.1	25.9	45.8

Notes to the consolidated financial statements continued

Year ended 31 December 2017

13. Property, plant and equipment

	Land and buildings			Plant and machinery	Fixtures and fittings	Assets under construction	Total
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost or valuation							
At 1 January 2016	213.9	9.5	8.9	752.8	25.1	51.6	1,061.8
Additions	1.8	0.7	0.1	17.3	0.8	44.0	64.7
Acquisition of businesses	5.1	–	–	11.4	0.2	–	16.7
Exchange differences	32.7	0.5	1.4	108.7	3.8	7.8	154.9
Transfer to assets held for sale	(1.1)	–	–	–	–	–	(1.1)
Recategorisation	5.0	0.4	1.0	27.6	0.8	(34.8)	–
Disposals	(1.7)	–	(0.8)	(13.9)	(1.1)	(0.1)	(17.6)
Disposal of businesses	(2.9)	–	–	(2.6)	–	–	(5.5)
At 1 January 2017	252.8	11.1	10.6	901.3	29.6	68.5	1,273.9
Additions	0.6	1.7	0.2	10.8	0.4	59.6	73.3
Acquisition of businesses	–	–	–	8.7	–	–	8.7
Exchange differences	(0.8)	0.1	(0.4)	(11.7)	0.2	(0.6)	(13.2)
Fair value adjustment	–	–	–	(0.6)	–	–	(0.6)
Transfer to assets held for sale	(1.4)	–	–	–	–	–	(1.4)
Recategorisation	6.1	(1.1)	3.1	51.7	1.1	(60.9)	–
Disposals	(3.9)	–	–	(31.2)	(1.5)	(0.1)	(36.7)
At 31 December 2017	253.4	11.8	13.5	929.0	29.8	66.5	1,304.0
Accumulated depreciation and impairment							
At 1 January 2016	92.0	4.7	6.1	509.5	19.9	–	632.2
Charge for the year	6.7	0.5	0.6	44.6	1.7	–	54.1
Impairment losses incurred	–	–	0.2	4.7	0.1	–	5.0
Exchange differences	14.7	0.1	0.9	74.6	3.0	–	93.3
Transfer to assets held for sale	(0.7)	–	–	–	–	–	(0.7)
Eliminated on disposals	(1.0)	(0.4)	(0.7)	(12.0)	(1.1)	–	(15.2)
Eliminated on disposal of businesses	(0.9)	–	–	(2.9)	–	–	(3.8)
At 1 January 2017	110.8	4.9	7.1	618.5	23.6	–	764.9
Charge for the year	6.5	1.0	0.7	48.4	1.5	–	58.1
Impairment losses incurred	–	–	–	0.4	–	–	0.4
Exchange differences	0.4	–	(0.1)	(5.5)	0.1	–	(5.1)
Transfer to assets held for sale	(0.6)	–	–	–	–	–	(0.6)
Recategorisation	1.1	(0.9)	–	(0.2)	–	–	–
Eliminated on disposals	(3.2)	–	–	(29.5)	(1.5)	–	(34.2)
At 31 December 2017	115.0	5.0	7.7	632.1	23.7	–	783.5
Carrying amount							
At 31 December 2017	138.4	6.8	5.8	296.9	6.1	66.5	520.5
At 31 December 2016	142.0	6.2	3.5	282.8	6.0	68.5	509.0

During the year a £0.6m fair value adjustment was made to the value of acquired plant and machinery from 2016

At 31 December 2017 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.6m (2016: £1.7m)

In addition to the above, property, plant and equipment amounting to £2.1m (2016: £1.8m) has been classified as held for sale and is disclosed within current assets

13. Property, plant and equipment continued

The Group restructured various operations during the year and identified £0.4m (2016: £5.0m) of asset impairments. Asset impairments broken down by business segment are as follows:

	2017 £m	2016 £m
ADE		
Western Europe	0.2	–
North America	–	0.5
Emerging markets	–	0.2
AGI		
Western Europe	0.2	0.3
North America	–	3.8
Emerging markets	–	0.2
	0.4	5.0

It is the directors' view that there are no material differences between the value of the land owned and their carrying value in the balance sheet.

14. Inventories

	2017 £m	2016 £m
Raw materials	13.2	12.4
Work-in-progress	2.9	3.9
Finished goods and goods for resale	0.3	0.3
	16.4	16.6

15. Other financial assets

Trade and other receivables

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	114.2	106.4
Other debtors and prepayments*	26.2	19.9
	140.4	126.3
Amounts falling due after more than one year:		
Other debtors and prepayments*	1.0	0.4

* Other financial assets include prepayments of £9.4m (2016: £8.0), which are not included as financial assets under IFRS 7.

The average credit period given to customers for the supply of services as at 31 December 2017 is 63 days (2016: 63 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £5.5m (2016: £7.2m). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the consolidated financial statements continued

Year ended 31 December 2017

15. Other financial assets continued

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Further disclosure of the Group's financial instrument risk management activities is set out in note 18.

Included in the Group's trade receivable balance are debtors with a carrying amount of £29.2m (2016: £21.9m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The average credit terms offered to customers is 36 days, with a range from 14 days to 67 days.

Ageing of past due but not impaired receivables

	2017 £m	2016 £m
31–60 days	13.9	12.6
61–90 days	11.1	5.6
91–120 days	2.1	1.2
Greater than 120 days	2.1	2.5
	29.2	21.9

Movement in the allowance for doubtful debts

	2017 £m	2016 £m
At 1 January	7.1	5.9
Impairment losses recognised	1.8	1.9
Allowance acquired with businesses	–	0.1
Amounts written off as uncollectable	(2.4)	(0.9)
Impairment losses reversed	(1.0)	(0.7)
Exchange differences	–	0.8
At 31 December	5.5	7.1

In determining the recoverability of a trade receivable the Group considers any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a gross balance of £6.6m (2016: £10.2m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables

	2017 £m	2016 £m
Less than 3 months	1.5	1.6
3–12 months	3.7	2.9
Over 12 months	1.4	5.7
	6.6	10.2

15. Other financial assets continued

Cash and bank balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. A breakdown of significant cash and bank balances by currency is as follows:

	2017 £m	2016 £m
Sterling	24.5	3.3
Euro	6.0	2.2
US Dollar	5.8	3.7
Swedish Krona	1.5	1.0
Other	3.2	1.8
Total cash and bank balances	41.0	12.0

16. Assets held for sale

Assets held for sale comprise the following:

	2017 £m	2016 £m
Property, plant and equipment	2.1	1.8

Assets held for sale consist exclusively of land and buildings currently not in use by the Group. It is expected that the disposal of these assets will be completed during 2018. The assets held for sale are analysed between operating segments as follows:

	2017 £m	2016 £m
ADE		
North America	0.8	1.3
AGI		
Western Europe	0.4	0.5
North America	0.9	–
	2.1	1.8

17. Borrowings

	2017 £m	2016 £m
Borrowings at amortised cost		
Bank overdrafts	1.4	5.8
Loans	–	5.0
	1.4	10.8
The borrowings are repayable as follows:		
On demand or within one year	1.4	5.8
In the third to fifth years	–	5.0
	1.4	10.8
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1.4)	(5.8)
Amount due for settlement after 12 months	–	5.0

Notes to the consolidated financial statements continued

Year ended 31 December 2017

17. Borrowings continued

Analysis of borrowings by currency

	Sterling £m	Euro £m	US Dollar £m	Other currencies £m	Total £m
At 31 December 2017					
Bank Overdrafts	-	0.6	0.6	0.2	1.4
	-	0.6	0.6	0.2	1.4
At 31 December 2016					
Bank overdrafts	-	3.4	1.0	1.4	5.8
Loans	5.0	-	-	-	5.0
	5.0	3.4	1.0	1.4	10.8

The weighted average interest rates paid were as follows

	2017 %	2016 %
Bank overdrafts and loans	1.9	1.7

The directors estimate the fair value of the Group's borrowings as follows

	2017 £m	2016 £m
Bank overdrafts	1.4	5.8
Loans	-	5.0

The other principal features of the Group's borrowings are as follows

(i) Bank overdrafts are repayable on demand. No overdrafts are secured

(ii) At 31 December 2017 the Group's principal borrowing facility had drawings of £nil (2016: £5.0m) under a Revolving Credit Facility of £230m. This unsecured facility commenced on 3 April 2017 and matures on 3 April 2022. The multi-currency drawings under this facility carry an interest rate of between 0.90% and 1.75% above LIBOR (the applicable margin at 31 December 2017 was 0.90%)

At 31 December 2017 the Group had available £230.0m (2016: £225.0m) of undrawn committed borrowing facilities

All borrowings are classified as financial liabilities measured at amortised cost

18. Derivative financial instruments

Currency derivatives that are designated and effective as hedging instruments carried at fair value

Asset	Notional amount 2017 £m	Fair value 2017 £m	Notional amount 2016 £m	Fair value 2016 £m
Current				
Forward foreign exchange contracts	3.0	-	4.4	0.1
Total				
Forward foreign exchange contracts	3.0	-	4.4	0.1

The Group utilises currency derivatives to hedge material future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The unrecognised gains and losses were not significant in either 2017 or 2016.

In accordance with IFRS 7 Financial Instrument Disclosures, the Group's financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

18. Derivative financial instruments continued

Fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts

The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). From time to time the Group will use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. However, at the balance sheet date, the Group had no interest rate derivative contracts

	Sterling 2017 £m	Euro 2017 £m	US Dollar 2017 £m	Swedish Krona 2017 £m	Other currencies 2017 £m	Total fair value 2017 £m
Asset/(liability)						
Forward foreign exchange contracts	(1.2)	2.0	0.5	0.2	(1.5)	–
On demand or within one year	(1.2)	2.0	0.5	0.2	(1.5)	–

	Sterling 2016 £m	Euro 2016 £m	US Dollar 2016 £m	Swedish Krona 2016 £m	Other currencies 2016 £m	Total fair value 2016 £m
Asset/(liability)						
Forward foreign exchange contracts	(1.2)	(0.1)	0.8	2.0	(1.4)	0.1
On demand or within one year	(1.2)	(0.1)	0.8	2.0	(1.4)	0.1

Financial risk management

The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines reviewed and authorised by the Board.

The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved by the Board, where the effect is to minimise risk for the Group. Speculative trading of derivatives or other financial instruments is not permitted. There has been no significant change during the financial year or since the end of the year, to the types or scope of financial risks faced by the Group.

Liquidity risk

Liquidity risk is defined as the risk that the Group might not be able to settle or meet its obligations on time or at a reasonable price. Liquidity risk arises as a result of mismatches between cash inflows and outflows from the business. This risk is monitored on a centralised basis through regular cash flow forecasting, a three-year rolling strategic plan, an annual budget agreed by the Board each December and a quarterly re-forecast undertaken during the financial year. To mitigate the risk, the resulting forecast net debt/cash is measured against the liquidity headroom policy which, at the current net debt/cash levels, requires committed facilities (plus term loans in excess of one year) to exceed net debt by 50% (minimum facilities of £75m).

As at 31 December 2017, the Group had a revolving credit committed borrowing facility of £230.0m (2016: £230.0m) which, together with net cash of £39.6m (2016: £1.1m), resulted in available funds of £269.6m (2016: £231.1m). The Group also uses uncommitted short-term bank facilities to manage short-term liquidity but these facilities are excluded from the liquidity headroom policy. The Group manages longer-term liquidity through its committed bank facilities and will, if appropriate, raise funds on capital markets.

As at 31 December 2017 the Group's principal committed bank facility of £230.0m had a maturity date of 3 April 2022 (4.3 years to maturity) and had drawings of £nil (2016: £5.0m).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2017, the Group had gross cash of £41.0m (2016: £12.0m).

Notes to the consolidated financial statements continued

Year ended 31 December 2017

18. Derivative financial instruments continued

Interest rate risk

Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates. Changes in interest rates could have the effect of either increasing or decreasing the Group's net profit. Under the Group's interest rate management policy, the interest rates on each of the Group's major currency monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates for each major net currency exposure. The major interest rate risk is to UK rates but exposures also exist to rates in the USA, Europe and Sweden. Measurement of this interest rate risk and its potential volatility to the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

As at 31 December 2017, 0% of gross debt and 0% of gross cash were at fixed rates (2016: 0% of gross debt, 0% of gross cash).

Currency risk

Bodycote has operations in 23 countries and is therefore exposed to foreign exchange translation risk when the profits and net assets of these entities are consolidated into the Group accounts.

92% of the Group's sales are in currencies other than sterling (EUR 40%, USD 34% and SEK 6%). Cumulatively over the year, sterling rates moved such that the sales for the year were £32.1m higher than if sales had been translated at the rates prevailing in 2016.

It is Group policy not to hedge exposure for the translation of reported profits.

The Group's balance sheet translation policy is not to actively hedge currency net assets. However, where appropriate, the Group will still match centrally held currency borrowings to the net assets. The Group principally borrows in sterling but also maintains debt in US Dollar, Euro and Swedish Krona, consistent with the location of the Group's assets. The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances.

Transaction foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. It has been Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 92% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and immaterial for the Group.

Market risk sensitivity analysis

To represent management's best estimate of a reasonable range of potential outcomes, the Group has measured the estimated charge to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in sterling against all other currencies from the applicable rates as at 31 December 2017 for all financial instruments with all other variables remaining constant. This analysis is for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect the interest income or expense of variable interest financial instruments,
- changes in market interest rates only affect the income statement in relation to financial instruments with fixed interest if these are recognised at their fair value, and
- changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments.

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash or net borrowings at 31 December 2017 would reduce or increase profit before tax by approximately £0.4m (2016: £0.1m decrease). There is no significant impact on equity in the current or previous year.

Currency sensitivity

Taking the 2017 sales by currency, a 10% weakening/strengthening in the 2017 cumulative average rates for all currencies versus sterling would have given rise to a +£70.9m/-£62.7m movement in sales respectively. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2017 operating profit mix, a 10% weakening/strengthening in 2017 cumulative average rates for all currencies would have given rise to a +£14.0m/-£11.2m movement in headline operating profit.

Counterparty risk

Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, time deposits and money market funds. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure there is no significant concentration of credit risk. Group policy is to enter into such transactions only with counterparties with a long-term credit rating of A-/A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

19. Deferred tax

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

	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 January 2016	49.3	(3.1)	(5.3)	(10.2)	30.7
(Credit)/charge to income	1.1	–	1.2	(3.3)	(1.0)
Credit to equity	–	–	(1.4)	–	(1.4)
Acquisition of businesses	1.7	–	–	1.1	2.8
Transfers	(0.5)	(0.1)	0.3	0.3	–
Exchange differences	8.8	(0.1)	(0.7)	(2.0)	6.0
Effect of change in tax rate					
Income statement	(1.6)	0.1	0.2	0.1	(1.2)
Equity	–	–	0.4	–	0.4
At 1 January 2017	58.8	(3.2)	(5.3)	(14.0)	36.3
Charge/(credit) to income	1.6	1.3	(0.1)	2.0	4.8
Credit to equity	–	–	1.1	(0.5)	0.6
Acquisition of businesses	(0.4)	–	–	(0.3)	(0.7)
Transfers	(0.2)	–	0.1	0.1	–
Exchange differences	(1.8)	–	(0.2)	0.7	(1.3)
Effect of change in tax rate					
Income statement ¹	(11.2)	(0.1)	–	4.4	(6.9)
Equity	–	–	(0.1)	–	(0.1)
At 31 December 2017	46.8	(2.0)	(4.5)	(7.6)	32.7

¹ Net impact of

(i) £6.8m net one-off tax gain resulting from a revaluation of the Group's US deferred tax liabilities. This is in relation to the passing of the Tax Cuts and Jobs Act in the US in December 2017 that reduced the US Federal corporate income tax rate

(ii) £0.1m in relation to other tax rate change impacts

The following is the analysis of the deferred tax balances for financial reporting purposes

	2017 £m	2016 £m
Deferred tax liabilities	57.2	68.8
Deferred tax assets	(24.5)	(32.5)
	32.7	36.3

Other deferred tax assets relate to provisions recognised in the financial statements that are not yet deductible for tax purposes, in particular in relation to restructuring charges, share-based payments and local profit differences that are expected to reverse over time

At the balance sheet date, the Group has unused tax losses of £35.6m (2016: £46.3m) available for offset against future profits. A deferred tax asset has been recognised in respect of £7.3m (2016: £14.0m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £28.3m (2016: £32.3m) of such losses where there remains uncertainty over the timing of utilisation relating to future profitability. The majority of losses may be carried forward indefinitely.

A deferred tax liability of £0.5m (2016: £nil) relating to the temporary differences on unremitted earnings of overseas subsidiaries has been recognised as the Group believes it is probable that these temporary differences will reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

Notes to the consolidated financial statements continued

Year ended 31 December 2017

20. Other financial liabilities

Trade and other payables

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade creditors	38.2	37.7
Other taxes and social security*	23.5	16.8
Other creditors	14.6	23.0
Accruals and deferred income	62.1	56.0
	138.4	133.5
Amounts falling due after more than one year:		
Other creditors	3.4	4.4

* Other financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases as at 31 December 2017 is 40 days (2016: 40 days)

The directors consider that the carrying amount of trade payables approximates to their fair value

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows

	Less than 1 year 2017 £m	1–2 years 2017 £m	2–5 years 2017 £m	5+ years 2017 £m	Total 2017 £m
Non-interest bearing*	147.1	3.8	3.3	5.0	159.2
Finance lease liability	–	–	–	–	–
Bank loans and overdrafts	1.4	–	–	–	1.4
Derivative financial instruments	3.0	–	–	–	3.0
	151.5	3.8	3.3	5.0	163.6

	Less than 1 year 2016 £m	1–2 years 2016 £m	2–5 years 2016 £m	5+ years 2016 £m	Total 2016 £m
Non-interest bearing*	145.2	4.7	3.8	4.7	158.4
Finance lease liability	0.1	–	–	–	0.1
Bank loans and overdrafts	5.8	–	5.0	–	10.8
Derivative financial instruments	4.3	–	–	–	4.3
	155.4	4.7	8.8	4.7	173.6

* Non-interest bearing financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7. These are payable in less than one year

Of the £1.4m (2016: £10.8m) bank loans and overdrafts outflows disclosed above, £nil (2016: £5.0m) of bank loans are drawn under the committed facility maturing on 3 April 2022. The overdrafts are on demand and some are part of pooling arrangements, which include offsetting cash balances. Of the £3.0m (2016: £4.3m) derivative financial instruments outflows disclosed above, £3.0m (2016: £4.4m) are matched by derivative cash inflows, therefore the net impact on the balance sheet is £nil (2016: £0.1m)

21. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2017	6.7	6.6	7.2	20.5
Increase in provision	0.2	–	2.5	2.7
Release of provision	(0.5)	–	–	(0.5)
Utilisation of provision	(2.3)	(1.4)	(0.6)	(4.3)
Exchange difference	(0.1)	(0.3)	(0.6)	(1.0)
At 31 December 2017	4.0	4.9	8.5	17.4
Included in current liabilities				8.7
Included in non-current liabilities				8.7
				17.4

The restructuring provision materially relates to the costs associated with the closure of a number of Heat Treatment sites announced in 2015 and the restructuring of the Canadian operations announced in 2016.

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

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

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

22. Share capital

	2017 £m	2016 £m
Issued and fully paid:		
191,456,172 (2016: 191,456,172) ordinary shares of 17 3/11p each	33.1	33.1

Notes to the consolidated financial statements continued

Year ended 31 December 2017

23. Acquisition of businesses

On 20 December 2017, Bodycote acquired the thermal processing assets (including hot isostatic pressing vessels and vacuum furnaces) in Blaenavon, South Wales from Doncasters Group Limited for £8.7m. As part of the acquisition, Bodycote entered into a long term agreement to provide Doncasters Group with their HIP and Heat Treatment requirements in the United Kingdom and the associated employees involved with the thermal processing assets have transferred to Bodycote. Therefore, the transaction was treated as a business combination and with the consideration being assigned to the fair value of the thermal processing assets. This is the only transaction during 2017.

In the prior year acquisitions were made to strengthen the Group's network and to enhance the process offering in Canada, USA and Germany.

The transactions have been accounted for by the purchase method of accounting and are summarised below.

	2017 £m
Fair value of net assets acquired:	
Property, plant and equipment	8.7
Total consideration	8.7
Satisfied by	
Cash consideration	8.7
Net cash outflow arising on acquisition:	
Cash consideration	8.7

Prior year acquisitions had £6.5m of accrued consideration of which £5.5m has been paid in the current year. The remaining is expected to be paid in the next 12 months. During the year an adjustment was made to acquisitions completed in 2016. The adjustments are outlined in the table below.

	2017 £m
Fair value adjustment	
Property, plant and equipment	(0.6)
Trade and other receivables	(0.4)
Trade and other payables	(0.1)
Deferred tax liabilities	0.7
Goodwill	(0.4)

Acquisition-related costs (reported in exceptional items in note 5) amounted to £nil (2016: £0.6m).

The acquired businesses contributed £nil revenue and £nil operating profit for the period between the dates of acquisition and the balance sheet date due to the fact the acquisition was so close to year end.

If the acquisitions had been completed on the first day of the financial year, Group revenue would have been £693.5m and Group headline operating profit attributable to equity holders of the parent, stated prior to Group management charges, would have been £124.0m.

24. Notes to the cash flow statement

	2017 £m	2016 £m
Profit for the year	973	670
Adjustments for		
Investment revenue	(0.1)	–
Finance costs	2.5	2.6
Taxation	19.7	24.9
Depreciation of property, plant and equipment	58.1	54.1
Amortisation of intangible assets	6.2	5.6
Profit on disposal of property, plant and equipment	(0.7)	(4.5)
Share-based payments	7.8	0.5
Impairment of fixed assets	0.4	5.1
Profit on disposal of businesses	–	(0.1)
EBITDA*	191.2	155.2
Decrease in inventories	0.5	5.5
Increase in receivables	(17.0)	(4.1)
Increase/(decrease) in payables	10.2	(6.7)
Decrease in provisions	(2.1)	(3.6)
Cash generated by operations	182.8	146.3
Income taxes paid	(22.9)	(20.4)
Net cash from operating activities	159.9	125.9
* Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets and other assets, profit or loss on disposal of property, plant and equipment, profit on sale of businesses and share-based payments		
	2017 £m	2016 £m
Cash and cash equivalents comprise		
Cash and bank balances	41.0	12.0
Bank overdrafts (included in borrowings)	(1.4)	(5.8)
	39.6	6.2

25. Operating lease arrangements – the Group as lessee

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised as an expense	18.4	17.3
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows		
	2017 £m	2016 £m
Within one year	13.7	14.1
In the second to fifth years inclusive	29.0	28.7
After five years	18.9	22.4
	61.6	65.2

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, fixtures and fittings and motor vehicles

Notes to the consolidated financial statements continued

Year ended 31 December 2017

26. Share-based payments

Bodycote Incentive Plan (BIP)

The Company operates the BIP under which Executive Directors and senior executives received a conditional award of Bodycote shares up to a maximum of 175% of base salary. Vesting of awards are based upon two performance measures, over a three year period.

Fifty per cent of the award is subject to a return on capital employed (ROCE) performance condition and 50% of the award is subject to an earnings per share (EPS) performance condition.

In the event that threshold performance for both EPS and ROCE is not achieved none of the conditional awards will vest.

The number of outstanding share awards is as follows:

	BIP 2017	BIP 2016
At 1 January	2,060,570	2,003,996
Granted during the year	759,058	896,894
Exercised during the year	(90,533)	(745,089)
Expired during the year	(522,808)	(95,231)
At 31 December	2,206,287	2,060,570
Average fair value of share awards granted during the year at date of grant (pence)	757.6	543.3
Fair value of awards granted during the year (£)	5,750,623	4,873,094

Exercise Price = £nil

The inputs to the Black-Scholes simulation model, used to determine the charge to the income statement for BIP, are as follows:

		2017	2016
Weighted average share price	pence	757.6	543.3
Weighted average exercise price	pence	nil	nil
Expected life	years	3.0	3.0
Expected dividend yields	%	1.9	1.9

The Group recognised a total charge to the income statement of £78m (2016: £0.5m) related to equity-settled share-based payment transactions.

The Group previously operated a Co-investment plan (CIP) which closed in 2016. This closed for share awards in 2016 and currently 29,858 shares are outstanding.

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

	2017 £m	2016 £m
Short-term employee benefits	3.2	1.8
Share-based payments	0.6	0.1
	3.8	1.9

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 54 to 75.

28. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for employees in the United Kingdom, France, Belgium, Canada and the United States of America. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group's employees in Denmark, Finland, Sweden, Italy and the Netherlands are members of state-managed retirement benefit schemes operated by the governments of each country. The relevant subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions.

The total cost charged to income of £6.7m (2016: £6.2m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2017 contributions of £0.2m (2016: £0.2m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group operated a number of pension schemes and provided leaving service benefits to certain employees during the year. The defined benefit obligation less fair value of assets at the end of the year and total expense recognised in the income statement are summarised below as follows:

	2017 £m	2016 £m
UK Scheme	(2.4)	3.6
Non-UK Schemes	17.6	17.9
	15.2	21.5
Total expense recognised in income statement		
	2017 £m	2016 £m
UK Scheme	1.1	0.8
Non-UK Schemes	0.4	0.1
	1.5	0.9

UK Scheme

The Group sponsors the Bodycote UK Pension Scheme ('the Scheme') which is a funded defined benefit arrangement for certain UK employees, and pays out pensions at retirement based on service, final pensionable pay and price inflation. The Scheme is funded by the Group and current employee members. The Scheme exposes the Company to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

The Scheme operates under UK trust law and the trust is a separate legal entity from the Group. The Scheme is governed by a board of trustees, composed of two member representatives, two employer representatives and one independent trustee. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment, funding) together with the Group.

Funding of the Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group. The actuarial valuation of the Scheme as at 6 April 2017 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2017.

The contributions made by the employer over the financial year have been £0.7m, comprising £0.3m in respect of benefit accrual and £0.4m in respect of deficit recovery and ongoing expenses.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the profit and loss account and in Other Comprehensive Income.

As the Group does not have an unconditional right to a return of any surplus in the Scheme under the wording of the Scheme Rules, the additional reporting requirements of IFRIC14 apply. As the Scheme is in surplus as at 31 December 2017 a restriction must be applied to the balance sheet. The surplus recognised on the balance sheet has been restricted to £2.4m. No further liabilities need to be recognised at 31 December 2017 as the Group is not committed to paying any further deficit reduction contributions under the current Schedule of Contributions.

Notes to the consolidated financial statements continued

Year ended 31 December 2017

28. Retirement benefit schemes continued

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

	2017 £m	2016 £m
Defined benefit obligation at start of year	126.6	99.9
Current service cost	0.6	0.6
Interest expense	2.9	3.4
Contributions by plan participants	0.1	0.2
Actuarial gains arising from changes in demographic assumptions	(2.4)	–
Actuarial losses arising from changes in financial assumptions	0.6	27.0
Experience (gains)/losses on liabilities	(5.4)	1.3
Benefits paid, death in service insurance premiums and expenses	(13.1)	(5.8)
Defined benefit obligation at end of year	109.9	126.6

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

	2017 £m	2016 £m
Fair value of assets at start of year	123.0	101.4
Interest income	2.8	3.5
Return on scheme assets excluding interest income	4.4	19.8
Scheme administration expenses	(0.4)	(0.3)
Contributions by employer	0.7	4.2
Contributions by plan participants	0.1	0.2
Benefits paid, death in service insurance premiums and expenses (incl. age related rebate)	(13.1)	(5.8)
Fair value of assets at end of year	117.5	123.0

Total expense recognised in the income statement

	2017 £m	2016 £m
Current service cost	0.6	0.6
Net interest on the defined benefit (asset) liability	0.1	(0.1)
Scheme administration expenses	0.4	0.3
Total expenses	1.1	0.8

Assets

	2017 Quoted £m	2017 Unquoted £m	2016 Quoted £m	2016 Unquoted £m
Equities	14.4	–	18.5	–
Bonds	60.9	15.4	59.1	15.7
Cash	5.1	–	1.4	–
Diversified growth funds	7.9	–	28.3	–
Diversified credit funds	13.8	–	–	–
	102.1	15.4	107.3	15.7

None of the fair value of the assets shown above includes any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

The Scheme's present strategic target is to allocate 65% of the investment portfolio to 'return seeking' asset classes including equities, diversified growth funds, absolute return bonds and direct lending, and 35% to 'liability-matching' asset classes, namely Liability Driven Investment ('LDI'). The LDI portion of assets has been put in place to reduce interest rate and inflation risk.

28. Retirement benefit schemes continued

Assumptions

	2017 % per annum	2016 % per annum
RPI inflation	3.25	3.30
CPI inflation	2.45	2.50
Salary increases	3.00	3.00
Rate of discount	2.25	2.30
Allowance for pension in payment increases of RPI or 3% p.a. if less	2.41	2.41
Allowance for revaluation of deferred pensions	2.45	2.50

Mortality – current pensioners

	2017 S2PxA YoB CMI 2013 1.5% long term trend	2016 S2PxA YoB CMI 2013 1.5% long term trend
Actuarial tables used		
Life expectancy for members currently aged 65	22.6	22.8

Mortality – future pensioners

	2017 S2PxA YoB CMI 2013 1.5% long term trend	2016 S2PxA YoB CMI 2013 1.5% long term trend
Actuarial tables used		
Life expectancy at age 65 for members currently aged 40	24.3	25.0

	2017 All members commute 75% of maximum permitted	2016 All members commute 75% of maximum permitted
Cash commutation		

The weighted average duration of the defined benefit obligation as at 31 December 2017 is approximately 19 years (31 December 2016 18 years)

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

	2017 £m	2016 £m
Present value of defined benefit obligation	109.9	126.6
Fair value of plan assets	(117.5)	(123.0)
Deficit/(surplus) in the Scheme	(7.6)	3.6
Adjustment relating to asset ceilings and minimum funding requirements	5.2	–
Net defined benefit (asset)/liability before deferred tax	(2.4)	3.6

Reconciliation of asset ceiling

	2017 £m	2016 £m
Restriction due to asset ceiling at beginning of period	–	4.2
Interest on asset restriction	–	0.1
Other changes in asset restriction	5.2	(4.3)
Restriction due to asset ceiling at end of period	5.2	–

The best estimate of contributions to be paid into the plan for the year ending 31 December 2017 is £0.8m

Notes to the consolidated financial statements continued

Year ended 31 December 2017

28. Retirement benefit schemes continued

Amounts recognised in Other Comprehensive Income

	2017 £m	2016 £m
Gain/(loss) on experience on plan liabilities	5.4	(1.3)
Return on scheme assets excluding interest income	4.4	19.8
Effects of changes in financial assumptions underlying the present value of the liabilities	(0.6)	(27.0)
Effects of changes in demographic assumptions underlying the present value of the liabilities	2.4	-
(Loss)/gain due to change in asset restriction	(5.2)	4.3
Total gain/(loss) recognised in Other Comprehensive Income	6.4	(4.2)

Impact of changes to assumptions

	2017		2016	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(4.9)	4.9	(6.3)	6.3
0.25% change in price inflation (and associated assumptions)	1.8	(1.8)	2.9	(2.9)
1 year change in life expectancy at age 65	4.4	(4.4)	4.5	(4.5)

Combined non-UK disclosures

The Group operates schemes in the USA and continental Europe

During the year the two schemes in the USA were merged. This has been recognised as a settlement of the assets and liabilities in the Metallurgical scheme with an offsetting past service credit and cost in the non-Metallurgical scheme. Overall there is no net impact on the total expense recognised in the income statement in the year due to the merger of the US schemes.

In Europe the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in France, Germany, Italy, Turkey, Switzerland and Liechtenstein.

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

	2017 £m	2016 £m
Defined benefit obligation at start of year	29.0	25.6
Current service cost	0.7	0.7
Interest expense	0.5	0.6
Actuarial losses arising from changes in financial assumptions	0.2	1.5
Experience gains on liabilities	(0.3)	(0.4)
Benefits paid, death in service insurance premiums and expenses	(2.1)	(2.3)
Employee contributions	0.1	0.1
Curtailments	-	(0.2)
Settlements	(2.7)	-
Past service cost/(credit)	2.1	(0.8)
Exchange rate (gain)/loss	(0.2)	4.2
Defined benefit obligation at end of year	27.3	29.0

28. Retirement benefit schemes continued

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

	2017 £m	2016 £m
Fair value of assets at start of year	11.1	10.4
Interest income	0.2	0.2
Return on scheme assets excluding interest income	0.2	0.3
Contributions by employer	0.2	0.2
Contributions by employees	0.1	0.1
Benefits paid, death in service insurance premiums and expenses	(1.4)	(1.9)
Settlements	(1.9)	–
Past service credit	1.9	–
Exchange rate (loss)/gain	(0.7)	1.8
Fair value of assets at end of year	9.7	11.1

Total expense recognised in the income statement

	2017 £m	2016 £m
Current service cost	0.7	0.7
Net interest on the defined benefit liability	0.3	0.4
Curtailments	–	(0.2)
Settlements	(0.8)	–
Past service cost	0.2	(0.8)
Total expense	0.4	0.1

Assets

	2017		2016	
	Quoted £m	Unquoted £m	Quoted £m	Unquoted £m
Equities	3.8	–	1.9	–
Bonds	–	–	–	–
Cash and cash equivalents	–	0.2	1.9	0.1
Insurance contracts	–	5.7	–	7.2
Total	3.8	5.9	3.8	7.3

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group

Notes to the consolidated financial statements continued

Year ended 31 December 2017

28. Retirement benefit schemes continued

Assumptions for 2017

	Salary increases % per annum	Rate of discount % per annum	Inflation % per annum	Pension increases % per annum
USA – metallurgical	n/a	3.5	n/a	n/a
USA – non-metallurgical	n/a	3.5	n/a	n/a
France	2.5	1.2	1.5	1.0
Germany	2.5	2.0	n/a	1.8
Italy	2.5	1.4	1.5	n/a
Turkey	6.0	10.5	n/a	n/a
Liechtenstein	2.5	0.8	n/a	n/a
Switzerland	n/a	0.8	n/a	n/a

Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2017 range from 13 years to 19 years. The durations ranged from 10 years to 20 years as at 31 December 2016.

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

	2017 £m	2016 £m
Present value of defined benefit obligation	27.3	29.0
Fair value of plan assets	(9.7)	(11.1)
Deficit in the schemes	17.6	17.9

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2017 is that recognised in the balance sheet.

Amounts recognised in Other Comprehensive Income

	2017 £m	2016 £m
Gain from experience on plan liabilities	0.3	0.4
Return on scheme assets excluding interest income	0.2	0.3
Effects of changes in financial assumptions underlying the present value of the liabilities	(0.2)	(1.5)
Total gain/(loss) recognised in Other Comprehensive Income	0.3	(0.8)

The only funded plans are those operated in USA, France, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2017 is £0.2m.

Sensitivities (changes to total defined benefit obligations)

	2017		2016	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(1.0)	1.0	(1.1)	1.1
0.25% change in price inflation (and associated assumptions)	0.5	(0.5)	0.5	(0.5)

29. Contingent liabilities

The international tax environment has received increased attention and seen rapid change over recent years, both at a US and European level, and by international bodies such as the Organisation for Economic Cooperation and Development (OECD). Against this backdrop, Bodycote has been monitoring developments and continues to engage transparently with the tax authorities in the countries where we operate. In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK controlled foreign company rules. The Group Financing Exemption was introduced in legislation by the British government in 2013. In common with other UK-based international companies whose arrangements are in line with current UK CFC legislation, Bodycote may be affected by the outcome of this investigation. If the preliminary findings of the European Commission's investigation into the UK legislation are upheld, we calculate the maximum potential liability to be approximately £15m. Based on a current assessment, Bodycote believes that no provision is required in respect of this matter.

Five year summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue	690.2	600.6	567.2	609.1	619.6
Profit:					
Headline operating profit	123.9	99.6	102.1	111.1	107.4
Amortisation of acquired intangible fixed assets	(4.5)	(4.5)	(4.2)	(3.9)	(4.5)
Operating profit prior to exceptional items	119.4	95.1	97.9	107.2	102.9
Acquisition costs	–	(0.6)	–	(0.2)	–
Reorganisation costs	–	–	(20.0)	–	(0.8)
Operating profit	119.4	94.5	77.9	107.0	102.1
Net finance costs	(2.4)	(2.6)	(2.9)	(3.3)	(3.7)
Profit before taxation	117.0	91.9	75.0	103.7	98.4
Taxation	(19.7)	(24.9)	(18.8)	(24.4)	(25.3)
Profit after taxation	97.3	67.0	56.2	79.3	73.1
Non-controlling interests	(0.2)	–	–	0.1	(0.1)
Profit attributable to the equity holders of the parent	97.1	67.0	56.2	79.4	73.0
Headline earnings per share (pence)	49.2	37.0	39.5	43.8	41.2
Dividend per share (pence)	17.4	15.8	15.1	14.4	13.5
Special dividend per share (pence)	25.0	–	10.0	20.0	10.0
Assets employed					
Intangible fixed assets	201.0	206.7	175.2	172.1	167.9
Tangible fixed assets	520.5	509.0	429.6	434.6	444.6
Other assets and liabilities	(63.6)	(88.5)	(67.5)	(71.5)	(80.1)
	657.9	627.2	537.3	535.2	532.4
Financed by					
Share capital	33.1	33.1	33.1	33.1	33.1
Reserves	663.9	594.8	516.1	537.3	513.7
Shareholders' funds	697.0	627.9	549.2	570.4	546.8
Non-controlling interests	0.5	0.4	0.4	0.5	0.6
Net cash	(39.6)	(1.1)	(12.3)	(35.7)	(15.0)
Capital employed	657.9	627.2	537.3	535.2	532.4
Net assets per share (pence)	364.1	328.0	286.9	297.9	285.6
Return on capital employed (%):					
Headline operating profit divided by the average of opening and closing capital employed as adjusted for certain items of goodwill written off	19.3	17.1	19.0	20.7	19.9

Company statement of financial position

At 31 December 2017

	Note	2017 £m	2016 £m
Fixed assets			
Intangible fixed assets	2	22.2	18.7
Tangible fixed assets	3	0.2	0.2
Investments	4	390.9	390.9
Receivables	5	16.3	5.1
Retirement benefit assets	11	2.4	–
		432.0	414.9
Current assets			
Receivables	5	1.5	5.6
		1.5	5.6
Current liabilities			
Payables	6	(13.0)	(7.6)
Net current liabilities		(11.5)	(2.0)
Total assets less current liabilities		420.5	412.9
Payables: Amounts falling due after more than one year			
Retirement benefit obligations	11	–	(3.6)
Net assets		420.5	409.3
Capital and reserves			
Called-up share capital	8	33.1	33.1
Share premium account		177.1	177.1
Other reserves		133.6	125.0
Profit for the year		28.7	63.0
Retained earnings		48.0	11.1
Shareholders' funds attributable to equity holders		420.5	409.3

Bodycote plc reported a profit for the financial year ended 31 December 2017 of £28.7m (2016: £63.0m)

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 6 March 2018

They were signed on its behalf by

S.C. Harris
Director

D. Yates
Director

Company statement of changes in equity

For the year ended 31 December 2017

	Called-up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2016	33.1	177.1	124.2	62.2	396.6
Profit for the year	-	-	-	63.0	63.0
Actuarial loss on defined benefit pension schemes net of deferred tax	-	-	-	(3.6)	(3.6)
Total comprehensive income for the year	-	-	-	59.4	59.4
Dividends paid	-	-	-	(48.1)	(48.1)
Share-based payments	-	-	0.5	-	0.5
Settlement of share options	-	-	0.3	0.6	0.9
31 December 2016	33.1	177.1	125.0	74.1	409.3
Profit for the year	-	-	-	28.7	28.7
Actuarial gain on defined benefit pension schemes net of deferred tax	-	-	-	5.4	5.4
Total comprehensive income for the year	-	-	-	34.1	34.1
Dividends paid	-	-	-	(30.6)	(30.6)
Share-based payments	-	-	7.8	-	7.8
Settlement of share options	-	-	0.8	(0.9)	(0.1)
31 December 2017	33.1	177.1	133.6	76.7	420.5

Details of dividends paid are set out in note 9 to the consolidated financial statements

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

The other reserves are stated after deducting £8.0m (2016: £9.2m) relating to shares held in the Bodycote International Employee Benefit Trust. The Bodycote International Employee Benefit Trust holds Bodycote plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2017 1,171,190 (2016: 1,289,378) ordinary shares of 17.3/11p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these shares was £10.7m (2016: £8.3m).

Included in other reserves is the capital redemption reserve of £129.8m (2016: £129.8m).

Company accounting policies

Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year in dealing with items that are considered material in relation to the Company's financial statements. In accordance with Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

Going concern

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

Investments

Investments are held at cost less provision for impairment, if any.

Foreign currencies

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

Pension costs

The Company participates in a final salary defined benefit pension scheme in the United Kingdom which is funded by the payment of contributions to a separately administered trust fund. This is a defined benefit plan which shares the risks between entities under common control. For further details, see note 11.

There is no contractual arrangement or policy for charging the net benefit cost between the entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. As such, the Company recognises the net defined benefit cost and the retirement benefit obligation as per the requirements of IAS 19 Employee Benefits, as described in further detail in the accounting policies of the consolidated financial statements on page 92.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

The Company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Company accounting policies continued

Tangible fixed assets

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

Fixtures and fittings	10% to 20%
-----------------------	------------

Intangible fixed assets

Intangible fixed assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful lives, at the following annual rates:

Software	10% to 33%
----------	------------

Taxation

Current UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Related party transactions

The Company has taken advantage of the exemption contained in FRS 8 Related Party Transactions not to disclose transactions or balances with wholly-owned entities of the Group.

Share-based payments

The Company has applied the requirements of IFRS 2 Share-based Payment.

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

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty

In the course of preparing the Company's financial statements, no judgement or key source of estimation uncertainty have been identified.

Notes to the company financial statements

Year ended 31 December 2017

1. Profit for the year

Bodycote plc reported a profit for the financial year ended 31 December 2017 of £28.7m (2016: £63.0m)

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements

Disclosure of individual directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board Report on remuneration on pages 54 to 75 and form part of these financial statements

2. Intangible fixed assets

	Software £m
Cost	
At 1 January 2017	25.0
Additions	4.8
At 31 December 2017	29.8
Amortisation	
At 1 January 2017	6.3
Charge for the year	1.3
At 31 December 2017	7.6
Net book value	
At 31 December 2017	22.2
At 31 December 2016	18.7

3. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2017	0.8
Additions	0.1
At 1 January 2017 and 31 December 2017	0.9
Depreciation	
At 1 January 2017	0.6
Charge for the year	0.1
At 31 December 2017	0.7
Net book value	
At 31 December 2017	0.2
At 31 December 2016	0.2

Notes to the company financial statements continued

Year ended 31 December 2017

4. Investments

	Shares £m
Cost	
At 1 January 2017	397.5
At 31 December 2017	397.5
Provision for impairment	
At 1 January 2017	6.6
At 31 December 2017	6.6
Net book value	
At 31 December 2017	390.9
At 31 December 2016	390.9

The following subsidiaries have taken advantage of an exemption from audit under section 479A of the Companies Act 2006. As the ultimate parent, Bodycote plc has provided a statutory guarantee for any outstanding liabilities of this business. All subsidiary undertakings have been included in the consolidation.

Bodycote Heat Treatments Limited
 Bodycote Surface Technology Limited
 Bodycote HIP Limited
 Bodycote America Finance Limited
 Bodycote America Treasury Limited
 Bodycote Finance Limited
 Bodycote Finance UK Limited
 Bodycote International Limited
 Bodycote Investments Limited
 Bodycote Nominees No. 1 Limited
 Bodycote Pension Trustees Limited
 Bodycote HIP Germany Limited
 Bodycote Treasury Services Limited
 Bodycote Thermal Processing Mexico Limited

5. Receivables

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	0.7	0.4
Corporation tax recoverable	–	0.1
Other receivables and prepayments	0.8	5.1
	1.5	5.6
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	15.8	4.2
Deferred taxation (note 7)	0.5	0.9
	16.3	5.1
	17.8	10.7

6. Payables

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade payables	0.8	0.2
Amounts owed to subsidiary undertakings	0.5	0.6
Other taxes and social security	1.8	0.1
Other payables	4.8	2.0
Accruals and deferred income	5.1	4.7
	13.0	7.6

7. Deferred tax assets

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior reporting period

	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2016	0.5	0.3	0.8
Credit to profit or loss	(0.6)	–	(0.6)
Credit to other comprehensive income	0.7	–	0.7
At 1 January 2017	0.6	0.3	0.9
Charge to profit or loss	0.1	0.1	0.2
Credit to other comprehensive income	(1.1)	–	(1.1)
At 31 December 2017	(0.4)	0.4	0.0

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2017 £m	2016 £m
Deferred tax assets	0.9	0.9

8. Called-up share capital

Share capital:

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

	Number of shares	£m
At 1 January 2017	191,456,172	33.1
At 31 December 2017	191,456,172	33.1

Details of share options in issue on the Company's share capital and share-based payments are set out in note 26 to the consolidated financial statements

9. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £8.9m (2016: £17.1m)

10. Operating lease arrangements – the Company as lessee

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised as an expense	0.3	0.3

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2017 £m	2016 £m
Within one year	0.2	0.4
In the second to fifth years inclusive	0.1	0.3
	0.3	0.7

Operating lease payments represent rentals payable by the Company for its land and buildings and motor vehicles

Notes to the company financial statements continued

Year ended 31 December 2017

11. Pension commitments

The Company participates in a final salary defined benefit scheme, the details of which are disclosed in note 28 to the consolidated financial statements. This is a defined benefit plan which shares the risks between entities under common control. There is no contractual agreement or policy for charging the net benefit cost between entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. The net defined benefit cost and the retirement benefit obligation are recognised as per the requirements of IAS 19 (revised) Employee Benefits. Full disclosures concerning the scheme as required by IAS 19 (revised) are set out in note 28 to the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.3m (2016: £0.3m). As at 31 December 2017, contributions of £nil (2016: £0.1m) due in respect of the current reporting period had not been paid over to the scheme.

12. Related party transactions

During the current and prior year, the Company has not entered into any transactions with related parties who are not wholly-owned members of the Group.

Subsidiary undertakings

Incorporated in the UK

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

Bodycote America Finance Limited⁶
Bodycote America Treasury Limited⁶
Bodycote Developments Limited^{2 4}
Bodycote Finance Limited⁶
Bodycote Finance UK Limited⁶
Bodycote Heat Treatments Limited¹
Bodycote H I P Limited¹
Bodycote HIP Germany Limited³
Bodycote International Limited³
Bodycote Investments⁶
Bodycote K-Tech Limited²
Bodycote Nominees No. 1 Limited²
Bodycote Nominees No. 2 Limited²
Bodycote Pension Trustees Limited⁵
Bodycote Processing (Skelmersdale) Limited^{2 4}
Bodycote (Somerset) Limited²
Bodycote Surface Technology Limited¹
Bodycote Thermal Processing Limited²
Bodycote Thermal Processing Mexico Limited¹
Bodycote Treasury Services Limited⁶
Expert Heat Treatments Limited^{2 4}
Taylor & Hartley Fabrics Limited²

Incorporated in Belgium

Font Saint Landry 11, 1120 Brussels, Belgium

Bodycote Belgium SA¹

Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium

Bodycote Hot Isostatic Pressing NV¹

Incorporated in Canada

630 Newpark Boulevard, Newmarket ON L3X 2S2, Canada

Bodycote Canada Property Inc.⁴
Bodycote Thermal Processing Canada, Inc.¹

50 Queen Street North, Suite 1020, Kitchener ON N2H 6M2, Canada

Bodycote Heat Treatment Canada, Inc.¹

Incorporated in China

No. 68 Ningbo East Road, Taicang Economic Development Area, Taicang City, Jiangsu, China

Bodycote Heat Treatments Technology (Taicang) Co., Limited¹

2012 Kehang Road, High Tech District, Jinan City, Shandong, China

Bodycote (Jinan) Heat Treatments Technology Co., Ltd.¹

No.12 Building, No. 78, Gu Cheng Zhong Road, Yu Shan Town, Kunshan City, Jiangsu Province, China

Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.¹

No.B2-A, Wuxi National Hi-New Tech Industrial Development Z, Wuxi City, Jiangsu Province, 214028, China

Bodycote Wuxi Technology Co., Ltd.¹

Incorporated in Czech Republic

Liberec 30, Tanvaldska 345, PSC, 46311, Czech Republic

Bodycote HT sro¹

Rohanske nabrezi 671/15, Karlín, 186 00, Praha 8, Czech Republic

Bodycote SSC s r o⁸

Subsidiary undertakings continued

Incorporated in France

Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France

Bodycote France Holdings SAS³

Bodycote Lyon SNC⁶

Bodycote SAS¹

Bodycote Sud-Ouest SAS¹

HITEC SAS²

Nitruvid SAS¹

Techmeta Engineering SAS¹

Lieu-dit Champ Corbert, 74370, Metz Tassy, France

Techmeta Participations SAS²

Techniques Metallurgiques Avancées SAS¹

Incorporated in Germany

Schiessstrasse 68, 40549 Dusseldorf, Germany

Bodycote Deutschland GmbH⁶

Bodycote European Holdings GmbH³

Bodycote FHK Flachstahl-Harterei Kollner GmbH¹

Bodycote Germany – East GmbH⁶

Bodycote Hirzenhain GmbH¹

Bodycote Specialist Technologies GmbH¹

Bodycote Specialist Technologies Deutschland GmbH¹

Bodycote VHK Vakuum-Harterei Kollner GmbH¹

Bodycote Wärmebehandlung GmbH¹

Incorporated in Ireland

12 Merion Square North, Dublin 2, Ireland

Bodycote Ireland Finance DAC⁶

Bodycote Ireland Treasury Limited⁶

Incorporated in Mexico

Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico

Bodycote de Mexico, S. de R. L. de C.V.¹

Bodycote de SLP, S. de R. L. de C.V.¹

Bodycote Testing de Mexico, S. de R. L. de C.V.²

Bodycote Thermal Processing de Mexico, S. de R. L. de C.V.¹

Bodycote Thermal Processing de Mexico Servicios, S. de R. L. de C.V.⁶

Incorporated in Sweden

Box 209, 735 23 Surahammar, Sweden

Bodycote Hot Isostatic Pressing AB¹

Box 124, 424 23, Angered, Sweden

Bodycote Sweden AB³

Bodycote Thermotreat AB²

Bodycote Värmebehandling AB¹

Bodycote Ytbehandling AB¹

Incorporated in USA

12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA

Bodycote Americas, Inc.³

Bodycote America Finance, LLC³

Bodycote IMT, Inc.¹

Bodycote K-Tech, Inc.¹

Bodycote Syracuse Heat Treating Corporation¹

Bodycote Thermal Processing, Inc.¹

Bodycote USA, Inc.³

Incorporated in other overseas countries

Boehlerdurplatz 1, 8605 Kapfenberg, Austria

Bodycote Austria GmbH¹

Groethofstraat 27, 5916PA Venlo, Netherlands

Bodycote Hardingscentrum BV¹

Orczy ut 46, Budapest, H-1089, Hungary

Bodycote Hungary Hokezelo KFT¹

Kemalpasa OSB, Izmir Kemalpasa Asfalti No.17/1, 35730 Kemalpasa-IZMIR, Turkey

Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)¹

50 La Colomberie, St Helier, JE2 4QB, Jersey

Bodycote Jersey Holdings Limited³

Gesällvägen 7, 01730 Vantaa, Finland

Bodycote Lampokasittely Oy¹

7, Rue Robert Stumper, L-2557 Luxembourg

Bodycote Luxembourg Finance SARL⁶

Wilgowa 65D, Czestochowa, 42-271, Poland

Bodycote Polska sp z o o¹

Im alten Riet 123, 9494 Schaan, Liechtenstein

Bodycote Rheintal Wärmebehandlung AG¹

Via Moie 28, 25050, Rodengo Saiano, Italy

Bodycote Trattamenti Termici SpA¹

Brasov, str. Zizinului nr. 119, cod 500407, Romania

Bodycote Tratamente Termice SRL¹

Industribuen 16-18, 5592, Ejby, Denmark

Bodycote Varmebehandling A/S¹

Other:

Incorporated in USA

13753 Otterson Court, Livonia, MI 48150, USA

Thixomat Technologies, LLC (13.9% Investment)

Classifications Key

¹ Thermal processing company

² Dormant

³ Holding Company

⁴ Property Holding Company

⁵ Trustee

⁶ Provision of services to Group companies

Except where stated, these companies are wholly-owned subsidiaries and have only one class of issued shares

It is agreed that the three German subsidiaries Bodycote Wärmebehandlung GmbH, Bodycote Specialist Technologies Deutschland GmbH and Bodycote Specialist Technologies GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2017, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code

It is also agreed that the Dutch subsidiary Bodycote Hardingscentrum BV makes use of the exemption under Article 403, paragraph 1 of Book 2 Dutch Civil Code and will not publish its annual financial statements

The financial data of the above German and Dutch companies for 2017 are included in the consolidated annual accounts of Bodycote PLC

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Email: Log on to help shareview.co.uk (from here you will be able to email your query securely)

- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

Forms for some of these matters can be downloaded from the registrars' website www.shareview.co.uk. Shareholders can easily access and maintain their shareholding online by registering at www.shareview.co.uk. To register, shareholders will require their shareholder reference number which was recently provided.

Share dealing service

For information on the share dealing service offered by Equiniti Limited, telephone 0345 603 7037 (+44 121 415 7065 if calling from outside the UK). Lines open 8.00am to 4.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Please either telephone Equiniti or look online at www.shareview.co.uk for the up to date commission rates.

Dividend reinvestment plan (DRIP)

Equiniti's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend payments to purchase additional shares. The plan is provided by Equiniti Financial Services Limited, part of Equiniti Group, which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 08.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Alternatively go to shareview.co.uk/info/drip.

It is important to remember that the value of shares and dividend payments can fall as well as rise and you may not recover the amount of money that you invest. Past performance should not be seen as indicative of future performance.

Overseas shareholders

Equiniti provides a service to overseas shareholders that will convert sterling dividends into local currency at a competitive rate. Dividend payments will then be made directly into your local bank account. For more information log on to www.shareview.co.uk/info/ops where you will find the answer to any queries you have, as well as the full terms and conditions of the service. Alternatively please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 08.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.

Duplicate share register accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that was not your intention you might consider merging them into one single entry. Please contact Equiniti, who will be pleased to carry out your instructions.

Shareholder analysis

Analysis of share register as at 21 February 2018

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	883	42.8	367,113	0.2
1,001 to 10,000	770	37.4	2,456,286	1.3
10,001 to 100,000	228	11.1	7,449,382	3.9
100,001 to 500,000	111	5.4	27,855,431	14.5
500,001 and over	69	3.3	153,327,960	80.1
	2,061	100.0	191,456,172	100.0

Type of shareholders	% of shareholders	% of total shares
Directors' interests	0.1	0.1
Major institutional and corporate holdings	34.5	98.3
Other shareholdings	65.4	1.6
	100.0	100.0

As at 21 February 2018 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules

Type of shareholders	Number of shares	%
Old Mutual Global Investors (UK) Limited	16,848,515	8.8
Standard Life Investments Ltd	16,748,340	8.7
BlackRock Investments Management (UK) Ltd	8,853,119	4.6
AXA Investment Managers UK Ltd	8,243,744	4.3
Dimensional Fund Advisors, LP	8,236,192	4.3
Schroder Investment Management Ltd	8,114,965	4.2
Kames Capital	7,012,682	3.7
Franklin Templeton Fund Management Limited	6,800,000	3.6
Norges Bank Investment Management	6,282,074	3.3
JP Morgan Asset Management UK Limited	5,928,160	3.1

Company information

Advisers

Auditor

Deloitte LLP

Principal bankers

HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, UniCredit Bank AG, ING Bank NV, Wells Fargo Bank, NA and KBC Bank NV

Solicitors

Eversheds Sutherland (International) LLP, Herbert Smith Freehills LLP and DLA Piper UK LLP

Financial calendar

Annual General Meeting

30 May 2018

Final dividend for 2017

1 June 2018

Interim results for 2018

July 2018

Interim dividend for 2018

November 2018

Results for 2018

February 2019

Cover image

This microstructure shows a nickel based alloy at 400x magnification. The material has been manufactured using Bodycote's Powdermet® Near-Net Shape (NNS) technology, which produces components with a high degree of complexity not possible via conventional forging and casting techniques. Structural homogeneity and the elimination of all internal porosity are characteristics of components using this technology. Bodycote's innovative engineering solutions, Powdermet® technologies* improve customers' product design and system operations while contributing to overall savings.

* Patents pending

www.bodycote.com



For the online version of this report go to
bodycote.annualreport2017.com

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

Tel +44 (0)1625 505300
Fax +44 (0)1625 505313
Email info@bodycote.com

© Bodycote plc 2017
Produced by Jones and Palmer
www.jonesandpalmer.co.uk

