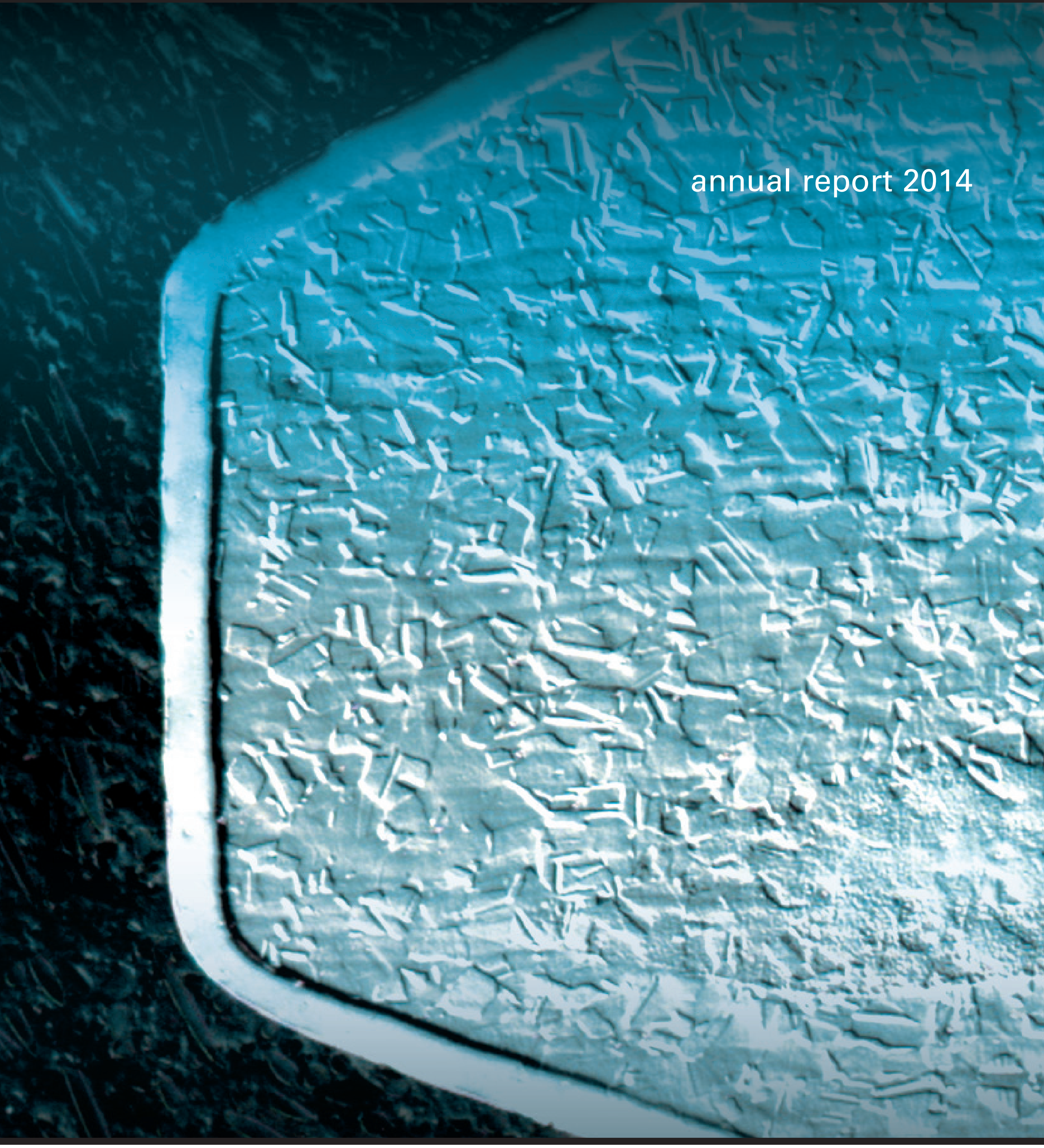
annual report 2014



www.bodycote.com | Stock code: BOY

Bodycote

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 in two major areas:

Aerospace, Defence & Energy (ADE)

Read more page 16

Automotive & General Industrial (AGI)

Read more page 18

Throughout this report you will see illustrations which link our business and strategy:

Strategy & Core Values

- Aerospace, Defence & Energy markets
- Automotive & General Industrial markets
- Rapid growth countries
- Technology
- Customer service
- Core values

Key Performance Indicators

- Return on capital employed
- Headline earnings per share
- Return on sales
- Headline operating cash flow
- Accident frequency
- Carbon footprint

For the online version of this report go to **bodycote.annualreport2014.com**

Cover image
This photo-micrograph shows an austenitic stainless steel microstructure having been treated by Bodycote's proprietary S[3]P process. The S[3]P process provides a unique surface hardening solution for stainless steel, nickel-based and cobalt-chromium alloys and produces improved mechanical and wear properties without adversely affecting corrosion resistance.

Financial highlights

	2014	2013
Revenue	**£609.1m**	£619.6m
Headline operating profit[1]	**£111.1m**	£107.4m
Return on sales[2]	**18.2%**	17.3%
Operating profit	**£107.0m**	£102.1m
Headline profit before taxation[1]	**£107.8m**	£103.7m
Profit before taxation	**£103.7m**	£98.4m
Headline operating cash flow[3]	**£100.0m**	£108.9m
Operating cash flow[4]	**£96.8m**	£104.6m
Net cash	**£35.7m**	£15.0m
Basic headline earnings per share[5]	**43.8p**	41.2p
Basic earnings per share	**41.7p**	38.5p
Ordinary dividend per share[6]	**14.4p**	13.5p
Special dividend per share[6]	**20.0p**	10.0p
Return on capital employed[7]	**20.7%**	19.9%

1 Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £3.9m (2013: £4.5m), reorganisation costs of £nil (2013: £0.8m) and acquisition costs of £0.2m (2013: £nil).

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

3 Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £3.0m (2013: £4.3m) and acquisition costs of £0.2m (2013: £nil).

4 Operating cash flow is defined as cash generated by operations of £150.6m (2013: £161.9m) less net capital expenditure of £53.8m (2013: £57.3m).

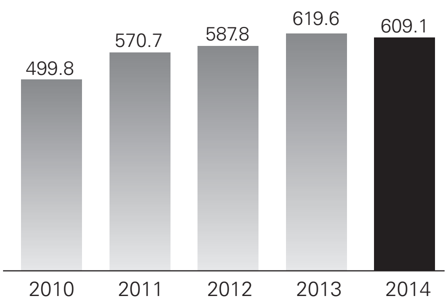
5 A detailed reconciliation is provided in note 9 on page 91.

6 See note 8 on page 90.

7 Return on capital employed is defined as headline operating profit of £111.1m (2013: £107.4m) divided by the average of opening and closing capital employed of £538.0m (2013: £539.6m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).

Revenue

£m



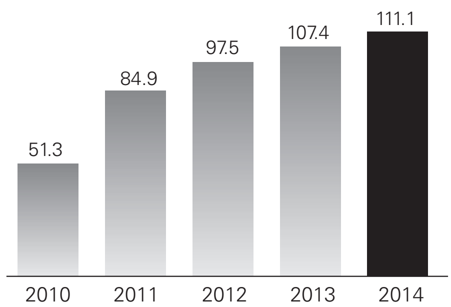
£609.1m

(1.7)%

(2013: £619.6m)

Headline operating profit

£m



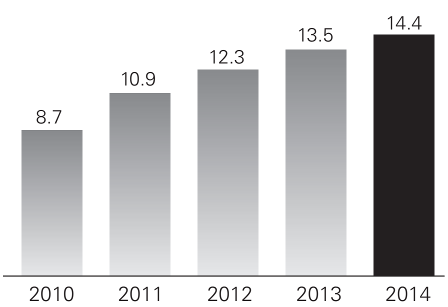
£111.1m

+3.4%

(2013: £107.4m)

Dividend per share

pence



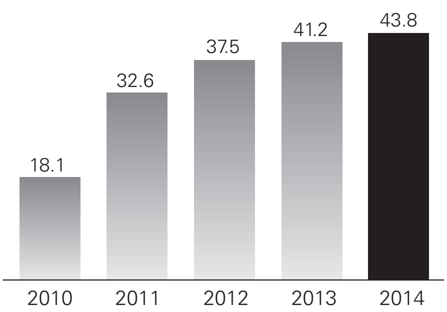
14.4p

+6.7%

(2013: 13.5p)

Headline earnings per share

pence



43.8p

+6.3%

(2013: 41.2p)

Chairman's statement

"With its strong operating and financial performance throughout 2014, the Group has again delivered a positive result for all of its stakeholders."

A.M. Thomson | Chairman

Overview

2014 was a year in which the Group experienced uncertain trading conditions in several of its major markets, together with significant fluctuations in the exchange rates used to translate the results of its overseas subsidiaries into sterling.

I am pleased to report that the Group, under the stewardship of Stephen Harris and his executive team, made solid progress throughout the year by continuing to execute the strategy of improving the mix of sales, towards higher value and positive growth areas, while maintaining focus on productivity improvements and strict cost control. Together this has again enabled the Group to grow its profitability, backed by strong cash generation and an impressive return on capital employed. Going forward we will continue to invest in suitable opportunities, either organically, in both developed and emerging markets, or through the acquisition of high quality businesses at sensible prices.

Headline earnings per share of 43.8p grew by 6.3% in the year while headline operating margins exceeded 18% and headline operating cash flow is 90% of headline operating profit. As a result the Group is reporting another year of strong cash generation with £35.7m of net cash at 31 December 2014. Return on capital employed increased to 20.7% for the year.

Dividend

The Board is proposing a final ordinary dividend of 9.8p, an increase of 8%, which will be paid on 1 May 2015 subject to shareholder approval at the 2015 Annual General Meeting (AGM). This brings the total ordinary dividend for 2014 to 14.4p (2013: 13.5p) costing £27.4m, which represents a year-on-year increase of 7%. Recognising the strong net cash position of the Group, the Board is again recommending a supplemental distribution, by way of a special dividend, amounting to 20.0p per share (2013: 10.0p), costing £38.1m (2013: £19.1m).

Governance and reporting

As Chairman, my key role is to lead the Board effectively. An important factor in achieving this is ensuring that good corporate governance procedures are practiced across all 26 countries in which the Group operates. In order to enable all shareholders to understand how this is achieved we have provided a Corporate governance statement on page 38 of this Annual Report. This describes how the governance structure underpins the delivery of the Group's business strategy. On page 24 we have also outlined the principal risks that may prevent the Group from achieving its objectives and the actions being taken to mitigate these potential obstacles.

Hand in hand with good governance goes transparent reporting, and this year we have made a number of changes to the Annual Report to ensure that this is achieved. Some of this is mandated by changes in UK reporting regulations, others through changes to the UK Corporate Governance Code, and some by pro-actively adopting best practice as it evolves.

The drive for ongoing improvement in environmental and safety reporting is described in the Corporate responsibility and sustainability section of this Annual Report on pages 28 to 34.

Board composition

It is the responsibility of every board to ensure that there is an appropriate succession planning process in place across the business, including for the board of directors. This is integral to the successful delivery of the Group strategy and underpins the effectiveness of the Board. During the year the Nomination Committee reviewed its plan for Board succession. With three of the four independent directors in place for more than six years, we plan to progressively transform the composition of the Board in the coming years. As a result of this exercise, John Biles, the Senior Independent Director and Chairman of the Audit Committee, will retire at the 2015 AGM. John joined the Board in 2007 and his wise counsel has been important as the transformation of the Group has taken place. He leaves us with all good wishes for the future.

In November 2014, following an extensive search, Ian Duncan, who is a qualified chartered accountant, joined the Board. Ian is a highly experienced independent director having previously gained excellent executive experience with a number of international organisations. His biography can be found on page 37.

During the year I again met with a number of Bodycote's leading shareholders and received positive, constructive feedback from them on their views of the Group. Going forward I will maintain this valuable dialogue and also look forward to meeting increasing numbers of shareholders at this year's AGM, when there will be an opportunity to discuss the Group's business and future prospects with Board members.

People

It is the employees of Bodycote who make this company special. Investing in all aspects of the workforce is an important feature in creating a successful future for the business. Over the last 12 months we have upgraded our human resource strategy, having identified talent management as a crucial factor if the Group is to deliver further operational improvement. I remain convinced that investment in all levels of the workforce will help to ensure that our staff will find Bodycote to be a company where they can continue to enjoy rewarding careers. On behalf of the Board I congratulate them for the dedication and professionalism that they have demonstrated throughout another successful year.

Summary

With its strong operating and financial performance throughout 2014, the Group has again delivered a positive result for all of its stakeholders. The share price remains strong, despite the economic and political turbulence which the Group has experienced in a number of the countries in which it operates. The Group's returns have continued to move in the right direction and the balance sheet is strong.

I remain confident that the executive team, supported by the Board, will continue to deliver first class returns as they develop our activities across the globe. With a talented and motivated workforce I anticipate further progress in the periods ahead.

A.M. Thomson
Chairman
26 February 2015

Chief Executive's review

"The Group delivered another good performance in 2014. Revenue, at constant exchange rates, was ahead 4% and we achieved further improvement in margin and return on capital employed, in addition to strong cash generation."

S.C. Harris | Group Chief Executive

Overview

I am pleased to be able to report on another successful financial year for Bodycote. The Group delivered 4.0% revenue growth at constant exchange rates, although after taking account of the foreign exchange impact revenue declined 1.7%. This performance was particularly encouraging given the lacklustre macro-economic background. Bodycote outperformed the market in many of its sectors and increased its market share in the year.

Group headline margins were expanded by 90 basis points to 18.2% driven by mix improvements across the business and increases in operating efficiency, particularly in Europe. Headline margins in Aerospace, Defence & Energy (ADE) were flat at 26.8% (2013: 27.0%) in keeping with the Group's strategy of preferentially pursuing growth in this part of the business but without targeting further increases in margin. Meanwhile, Automotive & General Industrial (AGI) headline margins increased by 90 basis points to 15.6%. Much of this increase was generated in Western Europe, which has been an area of focus and increased management attention. Progress has been good but there is still work left to do to achieve the full potential of this part of the Group's activities.

Group headline operating profit increased by 3.4% to £111.1m (2013: £107.4m) despite the decline in reported revenues. At constant exchange rates, growth was 9.2%. Headline earnings per share grew by 6.3% to 43.8p, helped by a one-off reduction in taxes.

Net capital expenditure of £53.8m (2013: £57.3m) was 1.0 times depreciation (2013: 1.0 times), although gross capital expenditure before the benefit of asset sales was 1.1 times depreciation (2013: 1.0 times). Return on capital employed is now 20.7% (2013: 19.9%). Headline operating cash flow was £100.0m (2013: £108.9m) corresponding to a 90.0% cash conversion rate (2013: 101.4%). The company finished the year with a £35.7m net cash position (2013: £15.0m).

Bodycote's strong cash flow generation is a feature of its business model and remains a high priority. This ability to consistently generate high levels of cash has been repeatedly demonstrated over the past several years. While the Group's top priorities for the use of this cash are funding organic growth and enhancing the core dividend, the Group is continually on the lookout for value enhancing acquisitions to boost growth and increase shareholder value. If no such acquisitions are imminent and available funds exceed the immediate needs of the business, then it is our intention to make supplemental distributions to shareholders, as the Board is recommending once again this year. Free cash generation was £75.1m and has comfortably exceeded £70.0m in each of the last three years.

Strategic progress

The strategy of preferential investment and expansion in our Specialist Technologies that has been pursued since 2009 has again made a meaningful impact on Group financial performance. In 2014 these technologies contributed some 24% to Group revenue, which was up from 14% in 2007. The six Specialist Technologies are HIP Product Fabrication (HIP PF), Specialty Stainless Steel Processes (S^3P), HIP Services, Surface Technology, Low Pressure Carburising and Corr-I-Dur®. In 2014 they had a combined operating margin of over 30% (stated before central costs) and in total contributed 38% of Group headline operating profit. Depending on the technology, Bodycote occupies either a unique or a very strong position in the market. Our success with these technologies will, sooner or later, attract greater competition but notwithstanding this, the market size, future growth potential and ability to generate superior margins from these processes are all very significant. Year-on-year growth in this area of the business was 17%, at constant exchange rates.

Our strategy of expanding in the rapid growth countries saw new plants announced in Turkey, Poland, China and Mexico. However, the total number of facilities in the Group fell to 188 as several uneconomic, commodity oriented sites were closed in Europe. Usable equipment was or will be transferred to other sites in the Group, but the exit from commodity work offset the growth achieved elsewhere in the classical heat treatment side of the business and overall the increase was constrained to 1% at constant exchange rates as a result.

The results of the ongoing pursuit of operational excellence continue to be rewarding. One of the methods used to enhance margins and improve pricing and mix is the Bodycote Margin Model. This is a tool that has been developed by the Group over the last five years and the rate of adoption of the methodology is increasing, now with particular success in Germany and the Netherlands. This approach and other practices such as lean manufacturing are helping to drive the performance improvement of the Classical Heat Treatment business.

Summary and outlook

The Group delivered another good performance in 2014. Revenue, at constant exchange rates, was ahead 4% and we achieved further improvement in margin and return on capital employed, in addition to strong cash generation.

As we begin 2015 a number of macro-economic uncertainties persist. Nevertheless, at this early stage in the year, the Board believes that the strength of the Group's Specialist Technologies and management's continued focus on business improvement, particularly in the Classical Heat Treatment business, should enable further progress in 2015.

S.C. Harris
Group Chief Executive
26 February 2015

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. Pages 7 and 8 outline the Group's strategy and objectives, along with the business model.

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

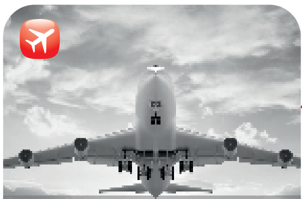
This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Bodycote plc and its subsidiary undertakings when viewed as a whole.

The Strategic report discusses the following areas:

- Strategy and objectives
- Business model
- Measuring progress (key performance indicators)
- Core technologies
- Global network
- Markets
- Business performance
- Business review – Aerospace, Defence & Energy
- Business review – Automotive & General Industrial
- Finance Director's report
- Principal risks and uncertainties
- Corporate responsibility and sustainability

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 minimal environmental impact.



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

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

Our strategy is based on these fundamentals

Capitalising on our Specialist Technologies to provide our customers with the ability to create innovative, differentiated products.

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

Achieving the highest levels of customer service in terms of quality, delivery, reliability and technical problem solving.

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 with whom we interact. 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.

Our progress measured - KPIs (for further details see page 9)

- Return on capital employed
- Headline earnings per share

- Return on sales
- Headline operating cash flow

- Accident frequency
- Carbon footprint

Business model

Provider of essential services to engineering manufacturers

Heat Treatment and Metal Joining

- Heat treatments are controlled processes used to alter the microstructure of materials such as metals and alloys to impart properties which benefit the working life of a component.
- Metal joining includes specialised processes used to join and assemble parts, sometimes dissimilar in material.

Hot Isostatic Pressing (HIP)

- HIP combines very high temperature with inert gas under very high pressure. HIP can be used to eliminate porosity in castings and manufacture specialist components with unique properties.

Surface Technology

- Surface technologies are used extensively to prolong the working life of components and protect them from environmental factors such as corrosion and abrasion.

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 188 market-focused facilities[12,13] in 26 countries brings economies of scale, particularly for logistics and equipment utilisation. This makes Bodycote's processing inherently more efficient than customers' in-house operations[32] and enhances our competitive position in the sub-contract 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 back-up 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, whatever 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[10] 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 has 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.

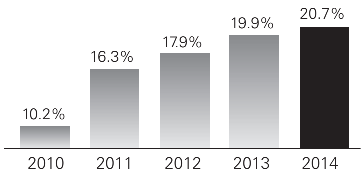
For investors

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

Superscript numbers indicate references to other pages in the report where further information can be found.

Measuring progress

Return on capital employed
(%)



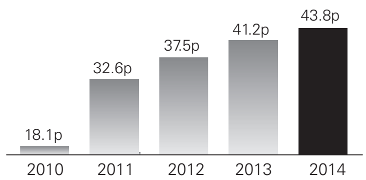
Performance
Return on capital employed increased by 0.8 percentage points during the year, from 19.9% to 20.7%.

Headline operating profit increased by 3.4% from £107.4m to £111.1m, while average capital employed reduced by 0.3% to £538.0m.

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)

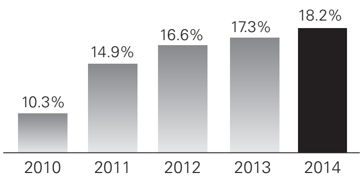


Performance
Headline earnings per share increased by 2.6 pence during the year, from 41.2 pence to 43.8 pence.

Headline earnings increased by 6.9% from £78.0m to £83.4m, while the average number of shares in issue remained static.

Definition
Headline earnings per share is defined in note 9 to the Group financial statements.

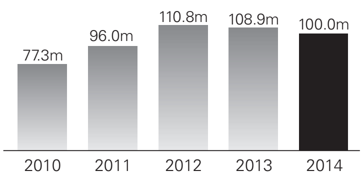
Return on sales
(%)



Performance
Return on sales increased by 0.9 percentage points during the year, from 17.3% to 18.2%. Headline operating profit increased by 3.4% from £107.4m to £111.1m, while revenue decreased by 1.7% from £619.6m to £609.1m.

Definition
Headline operating profit as a percentage of revenue.

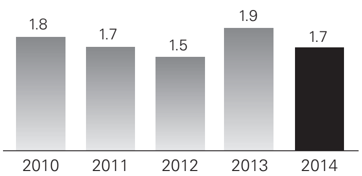
Headline operating cash flow
(£m)



Performance
Headline operating cash flow for the Group was £100.0m (2013: £108.9m). This was 90.0% of headline operating profit (2013: 101.4%).

Definition
Operating cash flow stated before cash flow relating to restructuring of £3.0m (2013: £4.3m) and acquisition costs of £0.2m (2013: £nil).

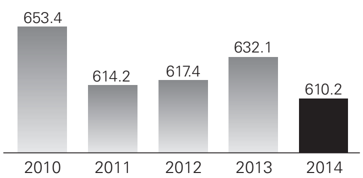
Accident frequency
(number)



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 decreased to 1.7 in the year (2013: 1.9). Further details are included in the Corporate responsibility and sustainability section on page 32.

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

Carbon footprint
(tonne CO_2e/£m sales)



Performance
On a normalised basis, the carbon footprint decreased by 3.5% from 632.1 tonnes per £m sales to 610.2 tonnes per £m sales. Further details are included in the Corporate responsibility and sustainability section on page 34.

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

CO_2 equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by DEFRA (Department for Environment, Food & Rural Affairs). Normalised emissions statistics restate prior year figures using current year country specific conversion factors and current year average exchange rates.

Core technologies

Thermal processing

Bodycote provides thermal processing services which improve material properties such as strength, durability and corrosion resistance, enabling manufacturers' components to work more efficiently with significantly extended operational lifetimes. Bodycote's services consist of a number of core technologies: heat treatment and metal joining, hot isostatic pressing (HIP) and surface technology.

Heat treatment and metal joining

Heat treatments are controlled processes used to alter the microstructure of materials, such as metals and alloys, to impart properties which benefit the working life of a component, for example, increased surface hardness, temperature resistance, ductility and strength. Metal joining includes specialised processes such as electron beam welding, vacuum and honeycomb brazing – complex operations requiring a fusion of expertise and technology.

Bodycote offers an extensive range of heat treatment services and metal joining techniques – including three of the Group's Specialist Technologies: Specialty Stainless Steel Processes (S³P), Corr-I-Dur® and Low Pressure Carburising – from facilities around the world. With unmatched capacity and computerised systems, Bodycote facilities can process a wide range of component sizes to exacting standards with reliable, repeatable results.

Hot isostatic pressing (HIP)

HIP Services and HIP Product Fabrication (HIP PF) – two of Bodycote's Specialist Technologies – combine very high temperature (up to 2,000 °C) with inert gas under very high pressure (up to 30,000 psi – equivalent to that found at an ocean depth of 11,000m such as at the bottom of the Mariana Trench in the Pacific Ocean). HIP can be used to eliminate porosity in castings and, by using HIP PF, enables the consolidation of encapsulated powders into dense materials and the bonding of dissimilar materials to manufacture unique cost-effective components. Every week a typical Bodycote HIP plant will process many tons of titanium, aluminium, steel and super-alloy castings, removing porosity and improving the performance of parts such as turbine blades and oilfield components.

With the largest operational capacity in the world and a wide variety of equipment sizes, Bodycote HIP is able to accommodate large volumes of small product as economically as large individual components.

Surface technology

The Group's Specialist Surface Technologies are used extensively to prolong the working life of components and protect them from environmental factors such as corrosion and abrasion. The range of surface technologies available from Bodycote covers a wide variety of applications, providing manufacturers with solutions to meet requirements such as durability, wear resistance, improved hardness and electrical conductivity.

Bodycote is a provider of specialised plasma spray, high velocity oxy fuel (HVOF) and thermochemically formed coatings treatments and is able to surface engineer components (including complex geometric shapes and internal bores) that are designed to operate in the most demanding of industrial applications.

The supplier of choice

Bodycote has become the supplier of choice for 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.

By outsourcing non-core but vitally important thermal processing requirements to Bodycote, customers are able to concentrate their business resources where they are needed most. Bodycote's services offer tangible benefits to customers such as reduced equipment maintenance, capital expenditure, energy costs, people costs and a major reduction in CO_2 emissions.

Bodycote has a long history of successful outsourcing relationships, working with a range of customers from global to local manufacturers. In many cases, these relationships lead to component and service-specific arrangements, which provide protection for the customer from supply disruption by leveraging Bodycote's unique facility network, and optimising asset utilisation. Such arrangements are normally exclusive in character and provide the basis for mutual business development, with both companies freed to concentrate capital and other resources on core competencies.

Making innovations possible

Bodycote's extensive facilities and expertise mean the identification and provision of technical solutions can expand far beyond customers' in-house capabilities, helping to realise goals more quickly and more cost-effectively.

Bodycote's experienced staff are able to innovatively apply existing or enhanced technologies to optimise customers' specifications, tailoring and combining processes to deliver value-adding services. This may include the enhancement of specific processes and equipment for a customer or verification of materials or designs, prior to their application.

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.

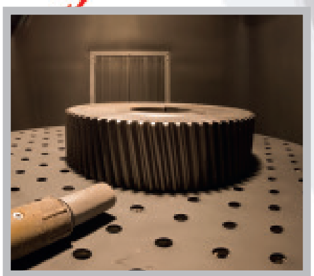
The gears begin life as low alloy steel.

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

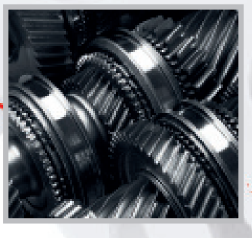
The gears are dimensionally measured before heat treatment to monitor and maintain repeatability of distortion. The gears are then heat treated using LPC to enhance functionality by adding a 'case depth' to provide strength and resistance to wear and tear.

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

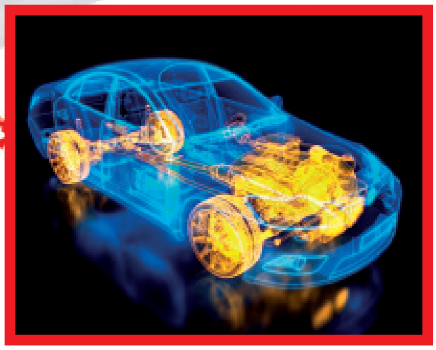
The parts are inspected and tested for surface hardness, core hardness and effective case depth.



The gears are 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 assembled into the transmission unit.



End application – automobile

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

Global network

Bodycote is experienced in all major market sectors and is able to combine the capability and expertise of a network of 188 worldwide locations to deliver global, or local, services for customers.

Overview

As the only truly 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.

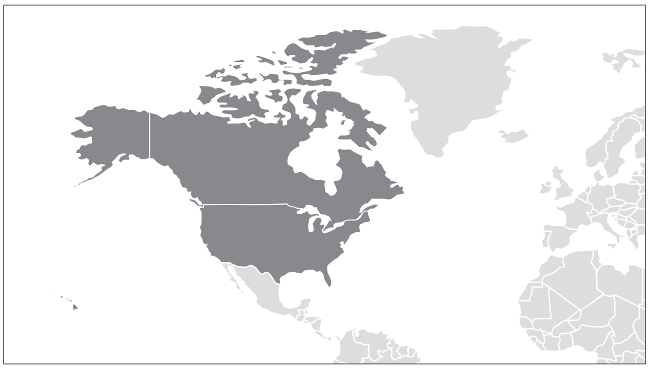
The network operates from 188 worldwide locations, with customers able to benefit from Bodycote's comprehensive range of services from multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They recognise that if they were to broaden 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.

Such a large network brings economies of scale, with technology developed at one location being available globally if the market requires it.

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 headquartered in the UK, 90% of the Group's revenue is derived outside the UK. With facilities in 26 countries, Bodycote is truly global.

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 locations convenient to customers in all areas where manufacturing and technical industries are concentrated.

Our facilities offer the widest and deepest range of processes for aerospace and energy applications and all the leading technologies for automotive applications.

Group revenue by market sector
£m

Aerospace and Defence	133.0
Energy	84.4
Automotive	151.0
General Industrial	240.7
Total	**609.1**

Revenue by market sector — North America
£m

Aerospace and Defence	74.5
Energy	34.5
Automotive	47.5
General Industrial	58.9
Total	**215.4**

Although Bodycote is headquartered in the UK, 90% of the Group's revenue is derived outside the UK. With facilities in 26 countries, Bodycote is truly global.

Western Europe

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

The range of process offerings varies somewhat by country and region, reflecting which types of industry are prominent in those locations, thus enabling the Group to best meet the needs of customers.

Emerging markets

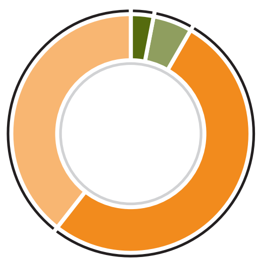
Bodycote has 30 facilities in emerging geographies covering Eastern Europe, China, Brazil, Mexico, India, Singapore and Dubai.

Bodycote is the number one thermal processing provider in Eastern Europe and is the leading western provider in China. These markets have a special emphasis in the Group's growth strategy for the future.

Revenue by market sector — Western Europe
£m

Aerospace and Defence	57.1
Energy	47.6
Automotive	80.5
General Industrial	164.5
Total	**349.7**

Revenue by market sector — Emerging markets
£m



Aerospace and Defence	1.4
Energy	2.3
Automotive	23.0
General Industrial	17.3
Total	**44.0**

Markets

Aerospace, Defence & Energy markets

Civil aerospace revenues increased in 2014 by 4% at constant exchange rates (1% decline at actual exchange rates), reflecting a combination of new contract gains and market demand, despite significant OEM destocking in the UK. Original equipment sales improved during the year in both the USA and France. Available seat kilometres grew by 6% indicating a continued increase in aircraft flying hours, which in turn resulted in increased demand for aftermarket parts.

Sales into the defence sector, which accounted for just under 5% of Group revenues, were weak as the effect of the widespread reduction in military budgets continued. Revenues were 6% lower than in 2013 at constant exchange rates (11% decline at actual exchange rates).

Demand for the Group's services in the power generation sector softened as the year progressed, with revenues below 2013 by 4% at constant exchange rates (7% at actual exchange rates).

The performance in oil & gas was strong, helped by significantly increased requirements for the Group's HIP Product Fabrication offering for major subsea projects, along with an end to destocking by onshore oil field service providers. Overall Group revenues were up 13% (at constant exchange rates) compared to 2013 and by 7% at actual exchange rates. Sales into the oil & gas sectors accounted for 10% of Group revenue.

Automotive & General Industrial markets

Revenues in car and light truck markets increased year-on-year by 5% at constant exchange rates (1% decline at actual exchange rates). Particularly pleasing was an increase in revenues above 4% in Western Europe, at constant exchange rates (1% decline at actual exchange rates), notwithstanding continued weak consumer demand.

Revenues from the heavy truck sector in North America grew strongly in 2014 and were ahead of the prior year by 6% at constant exchange rates (flat at actual exchange rates). In contrast, demand in Western Europe was very weak and revenues declined by 8% at constant exchange rates (15% decline at actual exchange rates).

Bodycote provides thermal processing services for a wide range of machinery and heavy equipment customers. Most sectors served by Bodycote grew well in 2014. This was particularly noteworthy in Western Europe against a background of generally soft macro-economic conditions. Of the more important sectors for the Group, demand was robust in tooling, construction equipment and general machinery, whilst consumer goods was soft. Overall revenues grew 4% at constant exchange rates (2% decline at actual exchange rates).

Business performance

	2014 £m	2013 £m
Revenue	**609.1**	619.6
Operating profit	**107.0**	102.1
Acquisition costs	**0.2**	–
Reorganisation costs	**–**	0.8
Operating profit prior to exceptional items	**107.2**	102.9
Amortisation of acquired intangible fixed assets	**3.9**	4.5
Headline operating profit	**111.1**	107.4

Group revenue was £609.1m, a decrease of 1.7%, with revenues at constant exchange rates up 4.0% and foreign exchange rate movements having a negative impact of 5.7%.

Headline operating profit for the year increased by 3.4% from £107.4m to £111.1m, and headline operating margin was 18.2% (2013: 17.3%). Headline operating profit at constant exchange rates increased by £9.9m, but adverse foreign exchange rate movements reduced the reported increase by £6.2m to £3.7m.

Cash flow is analysed as follows:

	2014 £m	2013 £m
Headline operating profit	**111.1**	107.4
Add back non-cash items:		
Depreciation and amortisation	**51.2**	52.9
Impairment of fixed assets	**2.7**	5.1
Share-based payments	**1.9**	3.6
Profit on disposal of property, plant and equipment	**(1.4)**	(0.1)
Headline EBITDA[1]	**165.5**	168.9
Net capital expenditure	**(53.8)**	(57.3)
Net working capital movement	**(11.7)**	(2.7)
Headline operating cash flow	**100.0**	108.9
Cash cost of restructuring	**(3.0)**	(4.3)
Acquisition costs	**(0.2)**	–
Operating cash flow	**96.8**	104.6
Interest	**(2.7)**	(3.3)
Taxation	**(19.0)**	(22.5)
Free cash flow	**75.1**	78.8

Profit growth, disciplined capital spending and working capital control have resulted in an operating cash inflow of £96.8m (2013: £104.6m). Group net cash at 31 December 2014 was £35.7m (2013: £15.0m).

Capital expenditure continued to be managed carefully. Capital spend (net of asset sales) in 2014 was £53.8m (2013: £57.3m), being 1.0 times depreciation[2] (2013: 1.0 times). There has been a continued focus on cash collection and receivable days at 31 December 2014 were 60 days (31 December 2013: 59 days). The net working capital outflow in the year is primarily a result of increases in inventories and receivables, in line with trading activity, in addition to a decrease in payables, resulting from the timing of capital expenditure payments and the utilisation of environmental provisions.

[1] 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.

[2] Net capital expenditure to depreciation ratio is defined as capital expenditure less proceeds from asset disposals as a proportion of depreciation and amortisation plus impairment of fixed assets.

Business review

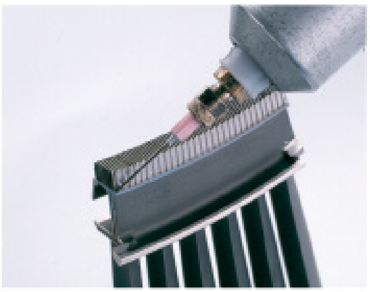
Aerospace, Defence & Energy

Powering on

Industrial gas turbines

Power generation requires reliable moving parts that can operate for long periods under high loads and extreme temperatures. For example, the compressor comprises various stages of stationary and rotating blades, each progressively increasing air pressure prior to mixing with fuel and igniting. Around the clock, turbine blades and vanes must be resistant to oxidation, corrosion and wear, and provide longevity in service. A combination of heat treatment, Hot Isostatic Pressing (HIP) and coatings allows industrial gas turbine blades and vanes to operate reliably at these high temperatures for extended periods of time.

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



Within the Aerospace, Defence & Energy (ADE) business, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and knowledge of operating in all of the world's key manufacturing areas. A number of Bodycote's most important customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services, encompassing 63 facilities in total.

Results

Revenues for the ADE business were £263.0m in 2014 compared to £261.8m in 2013, an increase of 0.5% (5.4% at constant exchange rates). Overall, revenues from the commercial aerospace sector remained solid but there have been significantly varying levels of demand in different OEM supply chains. Some have focused on significant destocking, while others have had robust growth on the back of new engine series and airframes. Defence demand has been subdued, resulting in further modest declines in revenue. In energy there has been a mixed picture. Requirements for industrial gas turbine have softened as the year progressed, especially in North America. Onshore oil & gas revenues grew strongly as the destocking seen in 2013, following the substantial decline in US gas prices, ended. The Group recorded strong growth in subsea revenues driven by increased uptake of the Group's HIP PF technology.

Headline operating profit[1] for ADE was £70.6m (2013: £70.7m) and headline operating profit margin reduced slightly from 27.0% to 26.8%.

In 2014, the Group added capacity in a number of facilities, including a new large furnace for aerospace aluminium heat treatments in California, USA, upgraded vacuum heat treatment capability in France and additional high pressure HIP capacity in Massachusetts, USA. In the coming year it is expected that capital expenditure will be slightly above depreciation as further capacity and capability are added to support continuing growth in the Group's high value activities.

Net capital expenditure in 2014 was £18.4m (2013: £20.4m) which represents 0.9 times depreciation (2013: 1.1 times).

Average capital employed in ADE in 2014 was £236.3m (2013: £235.4m). The Group continues to invest in high-return projects in the ADE business. Return on capital employed in 2014 was 26.6% (2013: 26.1%).

Achievements in 2014

The ADE divisions made further progress during the year in gaining new agreements with a range of customers and for a variety of end uses. The HIP division made excellent progress with its HIP PF offering and revenues advanced strongly at constant exchange rates. It should be noted, however, that unusually for Bodycote, HIP PF tends to be used in large capital projects by our customers and consequently revenue patterns can be expected to be uneven.

Organisation and people

Total full-time equivalent headcount at 31 December 2014 was 1,898 (2013: 1,938), a decrease of 2.1% compared to revenue growth in ADE of 0.5%.

Looking ahead

Order books for commercial aerospace OEMs remain strong, but notable destocking at certain OEMs and their supply chains is expected to continue during 2015. If the oil price remains at current levels we expect demand from this sector to weaken as the year progresses. Defence markets are expected to remain soft. Despite this, Bodycote expects to be able to continue to capitalise on its world leading position in ADE and again outperform the market.

[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).

ADE revenue by geography
£m

Western Europe	129.7
North America	130.8
Emerging markets	2.5
Total	**263.0**

ADE revenue by market sector
£m

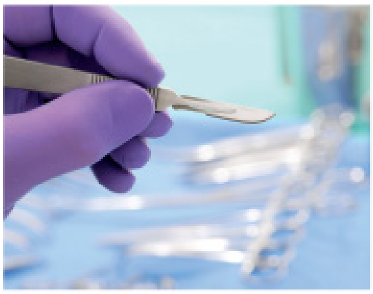
Aerospace & Defence	123.2
Energy	73.0
Automotive & General Industrial	66.8
Total	**263.0**

Staying sharp

Medical tools

Stainless steel is used widely in medical applications. It is valued as an inert material, able to withstand cleaning and sterilisation, while maintaining corrosion resistance. Demanding applications such as cutting instruments, trauma, electromechanical devices and motors require the benefits of stainless steel. These parts must resist galling, wear, and maintain a sharp edge. Bodycote's S³P processes for stainless steel provide hardened surfaces that do not crack or chip, and give superior wear resistance and strength without compromising the base material's corrosion resistance.

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



Whilst the Automotive & General Industrial (AGI) marketplace has many multinational customers which tend to operate on a regionally-focused basis, it also has very many medium-sized and smaller businesses. Generally, there are more competitors to Bodycote in AGI and much of the business is locally oriented, meaning that proximity to the customer is very important. Bodycote's uniquely large network of 125 AGI facilities enables the business to offer the widest range of technical capability and security of supply, continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base.

Results

AGI business revenues were £346.1m in 2014, compared to £357.8m in 2013, a decrease of 3.3% (3.1% increase at constant exchange rates).

In 2014 sales into car & light truck have been good in all geographies, with revenues increasing by 6.0% at constant exchange rates. Revenues to heavy truck increased by 4.2% (at constant exchange rates) in North America as demand recovered well but weak economic conditions in Europe saw revenues to the sector decline by 7.6% (at constant exchange rates). General industrial markets have shown good growth in most sectors in both North America and Western Europe, with overall revenue growth of 3.4% (at constant exchange rates). Robust sales growth was seen in agricultural equipment, construction machinery and tooling, the latter typically being a leading indicator of industrial production.

In the emerging markets, AGI revenues increased by 2.8% (at constant exchange rates). Notable was strong heavy truck growth in China as a result of specific contracts won by the Group.

Headline operating profit[1] in AGI was £54.1m compared to £52.7m in 2013. Headline operating margin increased to 15.6% (2013: 14.7%) reflecting improved mix and strong cost control, particularly in areas of demand weakness. Revenues from the Group's Specialist Technologies, and especially its S^{3}P technology, grew strongly at high margins.

Net capital expenditure in 2014 was £31.1m (2013: £34.2m), which represents 0.9 times depreciation (2013: 1.0 times).

In 2015 we expect that capital expenditure will be just above depreciation as we accelerate capacity expansion in the rapid growth countries and for our Specialist Technologies. Return on capital employed in 2014 was 16.0% (2013: 15.1%). The increase reflects continuing focus on improving capital returns by increasingly targeting higher added-value activities. On average, capital employed in 2014 was £301.8m (2013: £304.2m).

Achievements in 2014

The Group continued to win business across all geographies. In both North America and Europe our ability to support automotive manufacturers as they move to newer technologies in pursuit of better fuel efficiency continues to provide Bodycote with market share growth. New outsourcing contracts and contributions from our AGI focused Specialist Technologies of S^{3}P, Low Pressure Carburising and Corr-I-Dur® resulted in growth at constant exchange rates in all regions. Overall, revenues grew by 3.1% at constant exchange rates.

AGI continued to see the benefits of mix improvement and market focus. Together with an emphasis on improved efficiency these factors have been crucial in the achievement of ongoing margin enhancements in this business.

Organisation and people

At 31 December 2014, the number of full-time equivalent employees in AGI was 3,567 compared to 3,585 at the end of 2013 and 1,677 less than its peak in July 2008. AGI revenues of £346.1m compare to £339.6m in 2008 (at 2014 exchange rates), an increase of 1.9%.

Looking ahead

The AGI businesses will continue to build on the success of enhancing margins through capturing high value work. The focus on improving customer service helps drive this effort while the prioritisation of existing capacity in favour of higher value work and investing in Specialist Technologies provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in the rapid growth countries.

[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).

AGI revenue by geography

£m

Western Europe	220.0
North America	84.6
Emerging markets	41.5
Total	**346.1**

AGI revenue by market sector

£m

General Industrial	182.1
Automotive	142.8
Aerospace, Defence & Energy	21.2
Total	**346.1**

Finance Director's report

Financial overview

	2014 £m	2013 £m
Revenue	**609.1**	619.6
Headline operating profit	**111.1**	107.4
Amortisation of acquired intangible fixed assets	**(3.9)**	(4.5)
Operating profit prior to exceptional items	**107.2**	102.9
Acquisition costs	**(0.2)**	–
Reorganisation costs	**–**	(0.8)
Operating profit	**107.0**	102.1
Net finance charge	**(3.3)**	(3.7)
Profit before taxation	**103.7**	98.4
Taxation	**(24.4)**	(25.3)
Profit for the year	**79.3**	73.1

Group revenue was £609.1m, a decrease of 1.7%, with revenues at constant exchange rates up 4.0% and foreign exchange rate movements having a negative impact of 5.7%.

Headline operating profit for the year increased by 3.4% from £107.4m to £111.1m and headline operating margin was 18.2% (2013: 17.3%). Headline operating profit at constant exchange rates increased by £9.9m, but adverse foreign exchange rate movements reduced the reported increase by £6.2m to £3.7m.

The amortisation of acquired intangible assets arises from acquisitions in the current and prior years. The charge has decreased to £3.9m (2013: £4.5m).

Operating profit was £107.0m (2013: £102.1m) after charging £3.9m (2013: £4.5m) in respect of the amortisation of acquired intangible assets and £0.2m (2013: £nil) of acquisition costs. During 2013 reorganisation costs of £0.8m were also charged to the income statement.

Headline operating cash flow[1] for the Group was £100.0m (2013: £108.9m). This was 90.0% of headline operating profit (2013: 101.4%). Net capital expenditure was 1.0 times depreciation (2013: 1.0 times) as the Group continued to focus on increasing the utilisation of existing equipment. There was a working capital outflow in the year mainly due to a decrease in the level of payables, resulting from the timing of capital expenditure payments and the utilisation of environmental provisions, and an increase in the levels of inventories and receivables, in line with trading activity.

After deducting interest and tax, the Group recorded positive free cash flow[2] of £75.1m (2013: £78.8m).

Exceptional costs

Total exceptional costs charged to the income statement amounted to £0.2m (2013: £0.8m). Acquisition costs of £0.2m (2013: £nil) have been incurred and no reorganisation costs were expensed in the year (2013: £0.8m).

Restructuring provisions outstanding at 31 December 2014 totalled £9.4m (2013: £8.6m). Of the remaining costs, £5.2m is expected to be spent in 2015 and £4.2m in 2016 and later. All expenditure after the end of 2015 relates to ongoing environmental remediation, primarily in the USA.

Profit before taxation

Headline profit before taxation was £107.8m (2013: £103.7m). Profit before taxation was £103.7m (2013: £98.4m). These amounts are reconciled as follows:

	2014 £m	2013 £m
Headline operating profit	**111.1**	107.4
Net finance charge	**(3.3)**	(3.7)
Headline profit before taxation	**107.8**	103.7
Amortisation of acquired intangible fixed assets	**(3.9)**	(4.5)
Profit before taxation prior to exceptional items	**103.9**	99.2
Acquisition costs	**(0.2)**	–
Reorganisation costs	**–**	(0.8)
Profit before taxation	**103.7**	98.4

[1] Headline operating cash flow is reconciled on page 15.
[2] Free cash flow is reconciled on page 15.
[3] Headline EBITDA is reconciled on page 15.

Finance charge

The net finance charge was £3.3m compared to £3.7m in 2013. The decrease primarily results from lower average net debt in 2014 than in 2013, offset by higher financing costs due to facility arrangement fees related to the extension of the Revolving Credit Facility completed in July 2014.

	2014 £m	2013 £m
Net interest payable	**0.2**	0.6
Financing costs	**1.6**	1.5
Bank and other charges	**0.9**	1.0
Pension finance charge	**0.6**	0.6
Net finance charge	**3.3**	3.7

Taxation

The taxation charge was £24.4m for the year (2013: £25.3m).

The effective taxation rate of 23.5% (2013: 25.7%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The reduction in the taxation rate is primarily due to a one-off benefit in the year following the settlement of historical overseas tax matters.

The headline taxation rate for 2014 was 22.7% (2013: 24.7%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles, which are generally not allowable for tax purposes.

Earnings per share

Basic headline earnings per share (as defined in note 9) increased to 43.8p from 41.2p. Basic earnings per share for the year increased to 41.7p from 38.5p.

Dividend

The Board has recommended a final ordinary dividend of 9.8p (2013: 9.1p) bringing the total ordinary dividend to 14.4p per share (2013: 13.5p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 20.0p per share (2013: 10.0p). If approved by shareholders, the final ordinary dividend of 9.8p per share for 2014 and the supplemental distribution of 20.0p per share for 2014 will be paid on 1 May 2015 to all shareholders on the register at the close of business on 27 March 2015.

Capital structure

The Group's balance sheet at 31 December 2014 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	434.6	–	434.6
Goodwill and intangible assets	172.1	–	172.1
Current assets and liabilities	151.1	(159.6)	(8.5)
Other non-current assets and liabilities	1.6	(14.1)	(12.5)
Retirement benefit obligations	–	(17.0)	(17.0)
Deferred tax	27.2	(60.7)	(33.5)
Total before net cash	786.6	(251.4)	535.2
Net cash	38.5	(2.8)	35.7
Net assets as at 31 December 2014	**825.1**	**(254.2)**	**570.9**
Net assets as at 31 December 2013	808.6	(261.2)	547.4

Net assets increased by £23.5m (4.3%) to £570.9m (2013: £547.4m). At constant exchange rates, net assets increased by £42.6m (7.8%). The major movements compared to 31 December 2013 were an increase in net cash of £20.7m and a decrease in payables of £12.8m, together with a decrease in property, plant and equipment of £10.0m.

The decrease in property, plant and equipment was due predominantly to additions of £55.3m offset by depreciation of £50.3m, asset impairments of £2.7m and foreign exchange movements of £10.7m.

Trade and other payables decreased by £12.8m due to the impact of foreign exchange and the timing of capital expenditure payments.

Retirement benefit obligations decreased by £1.5m during the year, largely as a result of the increase in the value of scheme assets exceeding the increase in liabilities, the latter being principally due to reduced bond yields.

Net cash

Group net cash at 31 December 2014 was £35.7m (2013: £15.0m). The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of funding.

Finance Director's report continued

Cash flow

The net increase in cash and cash equivalents was £21.3m (2013: £13.7m), made up of net cash from operating activities of £131.6m (2013: £139.4m), less investing activities of £54.8m (2013: £58.2m) and less cash used in financing activities of £55.5m (2013: £67.5m).

The decrease in net cash flow from operating activities from £139.4m to £131.6m was driven primarily by the decrease in headline EBITDA[3] from £168.9m to £165.5m and the £9.6m decrease in payables.

Net cash outflows from investing activities decreased from £58.2m to £54.8m, primarily as a result of greater proceeds on disposal of property, plant and equipment in 2014 compared to the prior year. The level of net capital expenditure in 2014 was £53.8m (2013: £57.3m), consistent with plans to maintain and improve the capacity and capability of the Group, whilst keeping expenditure levels close to depreciation.

Net cash outflows used in financing activities decreased from £67.5m to £55.5m, due primarily to the reduction in loan repayments, from £36.6m in 2013 to £0.5m in 2014, offset by the increase in dividend payments, from £24.0m in 2013 to £45.2m in 2014.

There has been a continued focus on cash collection, although receivable days at 31 December 2014 increased by one to 60 days (2013: 59 days).

Net interest payments for the year were £2.7m (2013: £3.3m). Tax payments were £19.0m (2013: £22.5m).

Capital expenditure

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £53.8m (2013: £57.3m). The multiple of net capital expenditure to depreciation was 1.0 times (2013: 1.0 times), which reflects the Group's continued careful management of its capital expenditure programme. Major capital projects that were in progress during 2014 included expansion of our production facilities in Mexico, completion of the Kunshan facility in China, and expansion of our S[3]P capacity. The Group also continued to invest in the implementation of a new ERP system. As a consequence of the timing of these key projects, the value of assets under construction has increased by £9.9m, from £32.1m in 2013 to £42.0m in 2014.

Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, longer 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 longer term funding.

On 2 July 2014, the £125m and €125m revolving credit facilities were replaced by a single committed revolving credit facility for £230m, maturing on 3 July 2019. The amendment and maturity profile extension gave rise to a reduction in both the drawn margin and undrawn commitment fees.

The total undrawn committed facility funding available to the Group at 31 December 2014 was £230.0m (2013: £229.0m). The Group also has access to a US$10m committed letter of credit facility maturing in August 2016.

At 31 December 2014, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan and Letter of Credit Utilisation £m	**Facility Headroom £m**
£230m Revolving Credit	3 July 2019	230.0	–	**230.0**
$10m Letter of Credit	31 August 2016	6.4	1.7	**4.7**
		236.4	1.7	**234.7**

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Board. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. Due to the net cash position at 31 December 2014 the gearing ratio is 0% (2013: 0%).

Defined benefit pension arrangements

The Group has defined benefit pension obligations in the UK, Germany, Switzerland, Liechtenstein and the USA and cash lump sum obligations in France, Italy and Turkey, the liabilities for which are reflected in the Group balance sheet.

The net deficits in these arrangements are as follows:

	2014 £m	2013 £m
Funded		
UK	**1.0**	4.8
Other Western Europe	**1.6**	1.2
North America	**0.6**	0.2
	3.2	6.2
Unfunded		
Western Europe	**13.7**	12.1
Emerging markets	**0.1**	0.2
	13.8	12.3
Total deficit	**17.0**	18.5

The UK plan is closed to new entrants but the 82 active members continue to accrue benefits. The arrangements in France, Italy and Turkey are open to new members. All other arrangements are closed to new entrants.

UK Scheme liabilities have increased by £17.6m over the year (2013: £85.7m, 2014: £103.3m). This is primarily due to a change in the discount rate which has been reduced to 3.3% (2013: 4.5%), reflecting lower bond yields. The value of scheme assets has increased in the year by £21.4m, from £80.9m in 2013 to £102.3m in 2014, reflecting the significant proportion of bonds in the portfolio. The accounting deficit has consequently reduced to £1.0m at 31 December 2014 (2013: £4.8m).

The liability for all other schemes was £16.0m (2013: £13.7m). The increase is driven by lower bond yields and hence the discount rates used to evaluate the present value of the liabilities.

Post balance sheet events

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

Going concern

In determining the basis of preparation for the Annual Report, 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 2014 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019
- $10m Letter of Credit Facility maturing 31 August 2016

The December 2014 weighted average life of the committed facilities was 4.4 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.F. Landless
Group Finance Director
26 February 2015

Principal risks and uncertainties

Effective management of risks is essential to the delivery of the Group's objective of creating superior shareholder returns. The Board is responsible for the Group's risk management and the review of financial risk has been delegated to the Audit Committee. Under the leadership of the Group Head of Risk, Bodycote has developed the risk management framework to identify, report and manage its business critical risks. The Risk Committee, established in 2012, continued to meet during the year, attended by senior managers from each of the operating divisions. The role of the Risk Committee is to embed risk management and facilitate the implementation of risk management measures throughout the Group.

A variety of approaches are used to identify and report risks, which are aggregated first at a sub-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.

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 in December. In addition, the Board examines a specific risk topic at each Board meeting.

The table below highlights the major risks that may affect Bodycote's ability to deliver the strategy, as laid out on page 7. 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. Furthermore, 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 26 countries and a substantial amount of sales are closely linked to the economic cycle and the general macro-economic environment.	The high proportion of 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 (64% of the total Group) tend to develop in line with or ahead of the economic cycle, whereas aerospace and defence sales (22%) tend to track behind the economic cycle. Sales to the energy sectors (14%) are closely linked to energy prices, which in turn can be affected by general economic activity.	■ Bodycote's presence in 26 countries in a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility. ■ There is some 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.	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.	■ There is no significant customer dependency, with the Group's top ten customers accounting for less than 14% 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.	

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.	The erosion of market share resulting in loss of revenue and profit.	■ 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.	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.	■ 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 and health 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 SHE Committee.	
Environment Bodycote's operations could lead to damage to the environment.	Operations, if not properly managed, could result in environmental contamination with disruption of business, financial costs and loss of reputation.	■ Remediation of contaminated sites as required by local legislation. ■ Reduction in the use of hazardous substances, such as chlorinated solvents.	
Historical use of solvents and other hazardous chemicals by plants operated by Bodycote or by plants acquired by Bodycote could have led to ground contamination. The environmental regulations in many of the jurisdictions that Bodycote operates in impose actual or potential obligations on Bodycote to remediate contaminated sites.	Bodycote incurs costs annually (2014: £1.5m) in meeting its obligations and maintains a provision of £14.0m. If the provision is insufficient to meet the cost of remediation, then this could have an impact on the Group's results. Some of the Group's heat treatment plants continue to use solvents and hazardous chemicals in small quantities.	■ Environmental procedures and measures in place conforming to ISO 14001 (2014: 87% of plants). ■ Environmental due diligence of businesses for acquisitions.	

Principal risks and uncertainties continued

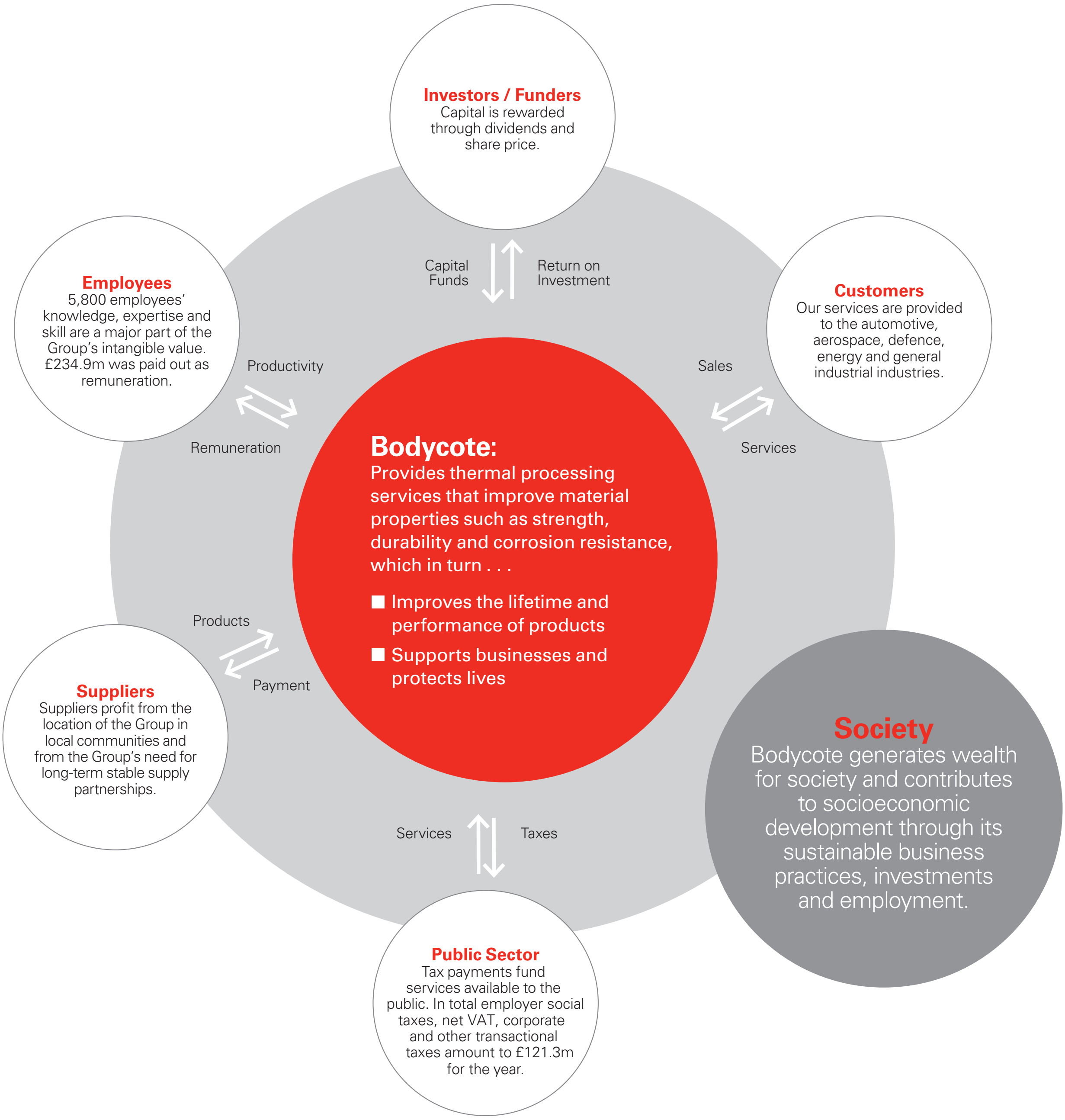
Risk description	Impact	Mitigation and control	Relevance to strategy
Operational risks			
Service quality The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.	Deterioration in quality or service levels can cause serious long-term damage to Bodycote's 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.	■ 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 TS 16949. ■ All plants subjected to internal and external quality audits and inspections at least once a year.	
Major disruption at a facility Bodycote's business processes are inherently risky and there is a possibility that a major fire 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.	Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.	■ Bodycote has a global network of 188 facilities that creates a framework to provide back-up capability for any affected facility. ■ Business continuity plans developed for all plants. ■ Independent insurer inspections to assess hazard and business interruption risks. ■ Scheduled equipment maintenance and inspections.	
Information technology projects The efficient operation of the Group will rely increasingly on the proper development and operation of its IT systems. Bodycote is currently undergoing a group-wide implementation of a new ERP system.	Failure to manage the implementation of the ERP programme successfully could result in cost overruns and, potentially, disruption to the business.	■ Project approval and progress subject to regular 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.	

Risk description	Impact	Mitigation and control	Relevance to strategy
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.	Failure to comply with legislation could lead to substantial financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation.	■ Business processes are supported by HR policies and the Group Code of Conduct alongside training and awareness programmes. ■ The "Open Door Line" whistleblower 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.	

Corporate responsibility and sustainability

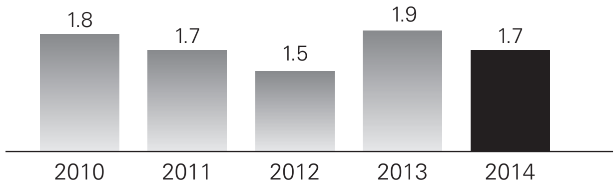
As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

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.



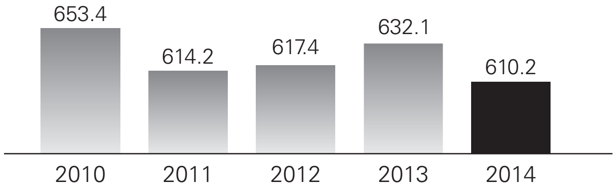
Corporate responsibility and sustainability continued

Accident frequency[1]



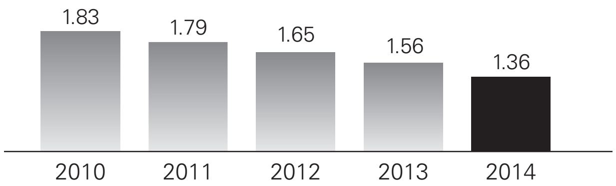
Carbon footprint[2]

(tonne CO_2e/£m sales normalised[3])



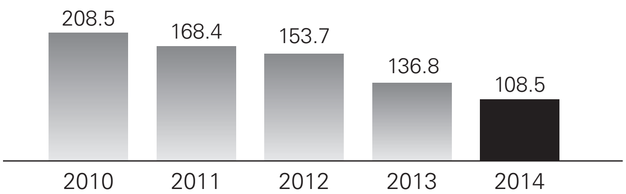
Water consumption

(thousand m^3/£m sales normalised[3])



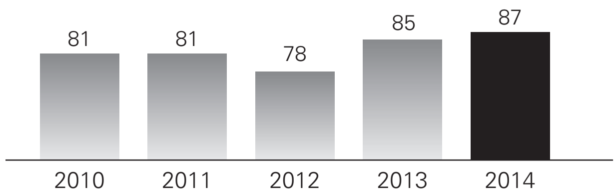
Chlorinated solvents

(kg/£m sales normalised[3])



ISO 14001 accredited facilities

(%)



[1] Accident frequency is defined as the number of lost time accidents ×200,000 hours, divided by the total number of employee hours worked.
[2] CO_2e is carbon dioxide equivalent, which represents the CO_2 release due to our energy usage.
[3] Normalised statistics restate prior year figures using current year national 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 and 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 information 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 is currently 14% (2013: 17%) and at manager level it is 27% (2013: 23%). Female representation on the Board has decreased due to the appointment of Ian Duncan in November 2014, and will increase to 17% when John Biles steps down at the 2015 AGM in April 2015. Females represent 17% (2013: 17%) of our total workforce. We will increase female representation on the Board if appropriate candidates are available when Board vacancies arise.

	Male	Female	**Total**	Male	Female	**Total**
Directors	6	1	**7**	86%	14%	**100%**
Managers	55	20	**75**	73%	27%	**100%**
Other staff	4,677	939	**5,616**	83%	17%	**100%**
	4,738	**960**	**5,698**	**83%**	**17%**	**100%**

Core values

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

Our Core Values are straightforward and are summarised as follows:

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 with whom we interact. 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.

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.

Customers and suppliers

Bodycote has no significant suppliers who are wholly dependent upon the Group's 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 share dealing codes.

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 the 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 verbally or in writing and in confidence to an independent third party provider, ensuring anonymity. Reports are transcribed and sent to the Group Head of Risk, who then passes the matter to the appropriate individual in the business to be addressed.

Online training courses in respect of 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 and additionally 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 introduced a new online incident reporting and management tool in 2013, which enabled more consistent and thorough reporting of workplace injuries, near misses and unsafe conditions. Following this 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 2014, the LTI rate fell to 1.7, re-establishing the previous trend of annual improvements in LTI rates in recent years. Although regrettable and not acceptable, accidents represent learning opportunities and so 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 ×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 very well since the introduction of the new global incident reporting system and a common near miss/unsafe condition reporting system at every operational site. The 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.

All reportable incidents and lost time injuries are reviewed during executive management 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.

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 thermal 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, and treated parts often last up to twenty times longer than the original.

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

Stacking up the benefits

Modern thermal processing techniques have allowed designers and manufacturers to use much lighter materials, such as aluminium and titanium, and have significantly prolonged component lifetimes. Through the effective use of thermal processing, parts can now be lighter and overall component weight reduced, leading to improved efficiency and reduced fuel consumption of products in service.

40%

the average reduction in fuel consumption of a 3.5 ton truck attributable to Bodycote heat treatment of transmission components

4x

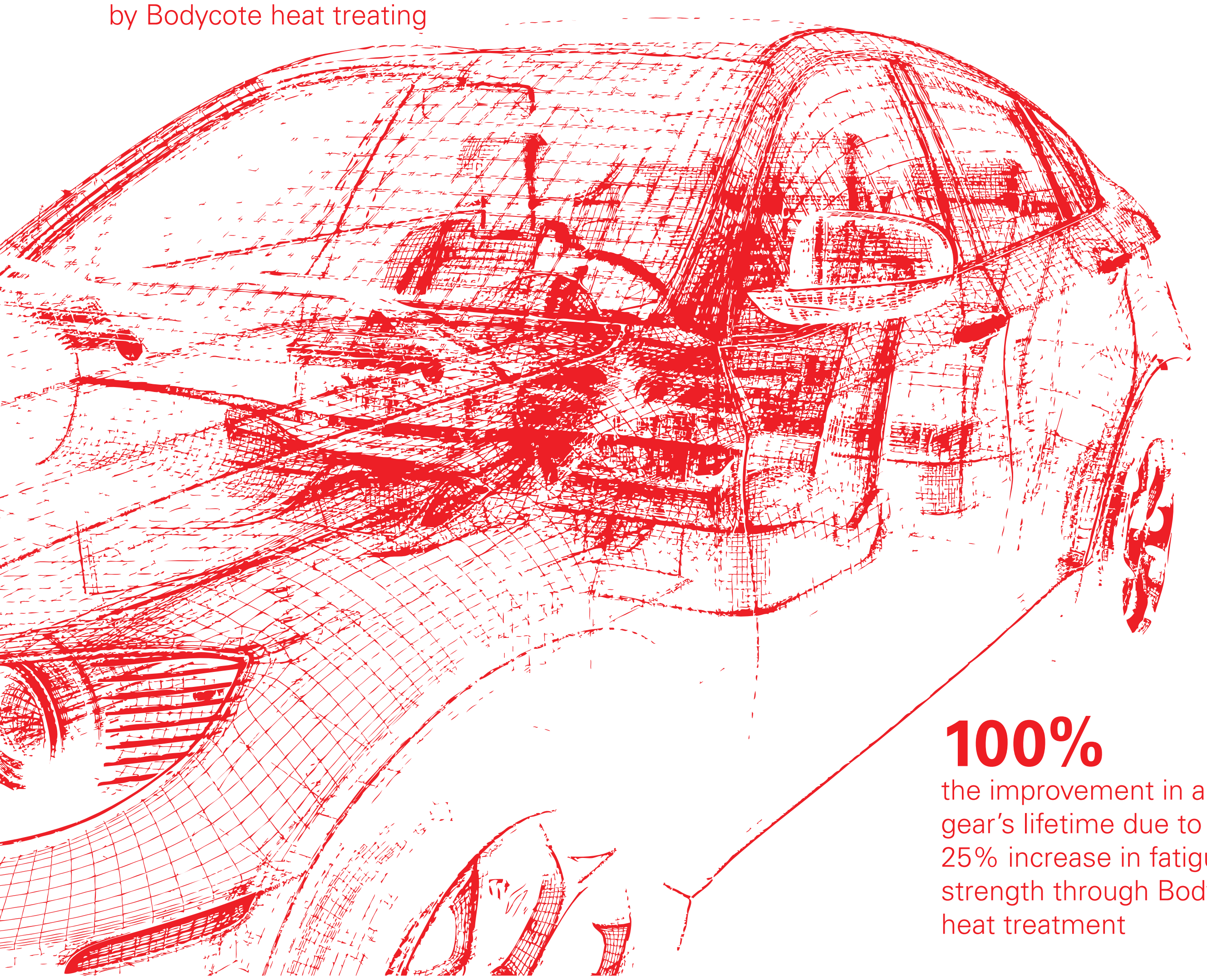
the amount by which Bodycote's carburising processes increase the fatigue and wear resistance of gears

20%

reduction in weight of a transmission component due to the higher strength given by Bodycote heat treating

up to 500%

the increase in strength Bodycote heat treatment can provide to automotive transmission components



100%

the improvement in a gear's lifetime due to a 25% increase in fatigue strength through Bodycote heat treatment

Corporate responsibility and sustainability continued

Greenhouse gas emissions

	2014		2013		2013 (normalised†)	
	CO_2e emissions ($ktCO_2$e)	**Intensity ratio†† (tCO_2e/£m)**	CO_2e emissions ($ktCO_2$e)	Intensity ratio†† (tCO_2e/£m)	CO_2e emissions ($ktCO_2$e)	Intensity ratio†† (tCO_2e/£m)
Scope 1	**158.2**	**259.7**	154.0	248.7	155.2	264.8
Scope 2	**213.4**	**350.5**	220.0	354.9	215.3	367.3
Statutory total*	**371.6**	**610.2**	374.0	603.6	370.5	632.1

* Statutory carbon reporting disclosures required by Companies Act 2006.

† Normalised statistics restate prior year emissions using current year national 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 UK Government's Department for Environment, Food and Rural Affairs (DEFRA) published national carbon conversion factors to calculate the total tonnage of CO_2e produced. Group operational management actively monitors their monthly CO_2e emissions reported and the Group's Executive Committee reviews the level of CO_2e 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 CO_2e relating to fugitive emissions and owned vehicles are not significant and are excluded. As such there are no significant omissions from this disclosure.

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 locations. At the end of 2014, 87% of our operating facilities had achieved ISO 14001 accreditation (2013: 85%). Operational plants which have not yet received accreditation to the standard are working towards it, including several of the facilities acquired and constructed during 2012–2014. Some older sites, which were accredited, have been closed. This explains why the increase has been relatively modest.

The fall in percentage in 2012 was due to the facilities acquired in that year which had not obtained accreditation.

Carbon footprint and water consumption

The absolute energy usage increased by 0.8%, despite normalised sales increasing by 4.0%.

The total CO_2e emissions per £m sales in 2014 were 610.2 Te (2013: as previously reported 603.6 Te; normalised† 632.1 Te).

The Group's total CO_2e 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.

Water usage per £m sales decreased by 8.0%. On a normalised† basis, water usage per £m sales decreased by 12.8%.

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 2014, the normalised† solvent use decreased by 20.7% compared with the previous year.

Cautionary statement

The Strategic report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

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

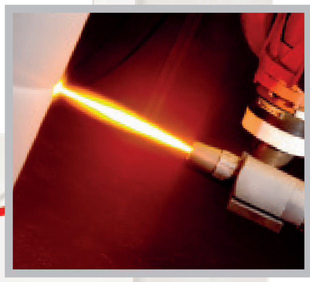
The Group Strategic report of Bodycote plc was approved by the Board of Directors and signed on its behalf by:

S.C. Harris
Group Chief Executive
26 February 2015

Controlling the flow – a component journey

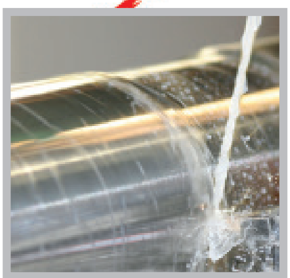
GATE VALVE
Gate valves and seats are used in the oil & gas industry to control the flow of oil-containing fluid extracted from the reserve. Within the well, pressures may be in excess of 15,000psi (or 6.5 tonnes per square inch) combined with high temperature. Such an extreme environment requires high performing components and reliable surface coating treatment. Bodycote applies a tungsten carbide coating to the valve and seat to provide a metal-to-metal seal that is highly wear and corrosion resistant.

The valve component is machined from high grade stainless steel or nickel based alloy.



The valve component is coated with gas tight tungsten carbide to provide a wear and corrosion resistant surface.

The coated surface is ground to specification to prepare it for polishing.



The part is super polished to provide a metal-to-metal sealing surface capable of withstanding pressures in excess of 20,000psi.

The part is assembled into the operating control valve and leak checked.

End application – subsea assembly or land-based rig

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

Board of Directors

David Landless Stephen Harris Alan Thomson

Executive Directors

S.C. Harris, 56 | Group Chief Executive
Appointed: November 2008
Committees: Nomination and Executive (Chairman)
Qualifications: Chartered Engineer, graduated from Cambridge University, masters degree in business administration from the University of Chicago, Booth School of Business
Experience: 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.
External appointments: Non-Executive Director of Mondi plc.

D.F. Landless, 55 | Group Finance Director
Appointed: March 1999
Committees: Executive
Qualifications: Chartered Management Accountant, graduated from the University of Manchester Institute of Science and Technology
Experience: Started his career with Bowater and Carrington Viyella and then at Courtaulds plc from 1984, being appointed a Finance Director in UK and US divisions of Courtaulds plc from 1989 to 1997 and as Finance Director of Courtaulds Coatings (Holdings) Limited from 1997 to 1999.
External appointments: Non-Executive Director of Luxfer Holdings plc

Non-Executive Directors

A.M. Thomson, 68 | Chairman
Appointed: December 2007
Committees: Nomination (Chairman) and Remuneration
Qualifications: Chartered Accountant, graduated from Glasgow University with a masters degree
Experience: Worked on a variety of audits for Arthur Andersen and Price Waterhouse, followed by senior management positions with Rockwell International plc, Raychem Ltd and Courtaulds plc. Joined Rugby Group plc as a Group Finance Director from 1992 to 1995 followed by Smiths Group plc from 1995 to 2006. He was also a Non-Executive Director of Laporte Plc from 1996 to 2002 and of Johnson Matthey Plc from 2002 to 2011. Past President of the Institute of Chartered Accountants of Scotland.
External appointments: Chairman of Hays PLC and Polypipe Group plc as well as Non-Executive Director of Alstom SA.

J.A. Biles, 67 | Senior Independent Director
Appointed: August 2007
Committees: Audit (Chairman), Remuneration and Nomination
Qualifications: Chartered Accountant, qualified with Price Waterhouse & Co after graduating from Exeter University in Chemistry and Physics.
Experience: Worked on a variety of audits and M&A activities at Price Waterhouse, followed by 5 years at EMI plc. In 1981 he joined Racal Electronics and held three successive financial director roles in defence and energy electronics. From 1991 to 1997 he was Group Finance Director of Chubb Security PLC and then from 1998 to 2004 he was Finance Director of FKI PLC, the international engineering group. He was a Non-Executive Director and Chairman of the Audit Committee of ArmorGroup International plc from 2004 until 2008, of Charter International plc from 2005 to 2012, of Hermes Fund Managers Limited from 2005 to 2011 and from Northern Ireland Electricity plc (previously Viridian Group plc) from 2005 to 2011.
External appointments: Non-Executive Director of Sutton & East Surrey Water plc, HellermanTyton Group plc and Skyepharma plc.

Ian Duncan Eva Lindqvist Raj Rajagopal John Biles

R. Rajagopal, 61 | Non-Executive Director
Appointed: September 2008
Committees: Audit, Remuneration and Nomination
Qualifications: A Chartered Mechanical Engineer, graduated with a BTech (Mechanical Engineering) from IIT Madras, India, followed by a PhD in Mechanical Engineering from the University of Manchester and was awarded a honorary doctor of science degree by Cranfield University. A Fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology (IET) and the Institute of Mechanical Engineers.
Experience: Joined BOC Edwards after obtaining his PhD and worked in various positions in operations management including Operations Director. Promoted to Managing Director of Edwards in 1993 and Chief Executive of BOC Edwards in 1996. Appointed Executive Director of BOC Group plc in 2000 until 2006. Past member of UK Council for Science and Technology and the Audit Commission. He was Non-Executive Director of Foseco plc from 2005 until 2008 and FSI International (a NASDAQ company) 2000 to 2005.
External appointments: Chairman of UMI3 since 2010 and of HHV Pumps Ltd since 2009. Non-Executive Director of W.S. Atkins plc since 2008, Spirax-Sarco Engineering plc from 2009, E2V Technologies PLC from 2010 and Porvair plc from 2014.

I.B. Duncan, 53 | Non-Executive Director
Appointed: November 2014
Committees: Remuneration, Audit and Nomination
Qualifications: Chartered Accountant, qualified with Deloitte and Touche after graduating from St. Catherine's College, University of Oxford in Geography.
Experience: Worked on a variety of audits with Deloitte and Touche, followed by 4 years with Dresdner Kleinwort Wasserstein. From 1990 to 1992 he worked for Lloyds Bank plc and then for 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. Non-Executive Director of Fiberweb plc from 2013 to 2013.
External appointments: Appointed as Non-Executive Director and Chairman of the Audit Committees of Babcock International Group plc in 2010, WANdisco plc in 2012 as well as Mouchel Group in 2013.

E. Lindqvist, 57 | Non-Executive Director
Appointed: June 2012
Committees: Remuneration (Chair, appointed 1 January 2013), Audit and Nomination.
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
Experience: 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 as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013 and of Blekinge Institute of Technology from 2010 to 2013.
External appointments: Appointed as Non-Executive Director of Assa Abloy AB in 2008, Tieto Corporation from 2010 as well as Sweco AB, Caverion Oy and Mycronic AB since 2013 and ComHem Holding AB in 2014.

U.S. Ball | Group Company Secretary
Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire, SK10 2XF.
Tel: +44(0)1625 505300 Fax: +44(0)1625 505313.
Registered Number 519057 England and Wales.

Corporate governance statement

Chairman's message

As Chairman I believe that the way any organisation is governed is fundamental to its success and for Bodycote this means the effectiveness of the Board and our governance arrangements. Effective governance starts at the top, with clear roles, responsibilities and lines of reporting. Directors have to operate within applicable laws and regulations, which include corporate governance rules. In addition, directors have to operate within the mandate given to them by shareholders, for example, in the Company's Articles of Association. On a more practical level the directors operate under agreed Board procedures such as the schedule of matters reserved for the Board, the role and descriptions of the Chairman, Group Chief Executive and Senior Independent Director, and service contracts and appointment letters. The important governance developments at Bodycote over the last year are detailed in the governance reporting section below.

The policy of the Board is to manage the affairs of the Group in accordance with the principles of corporate governance contained in the UK Corporate Governance Code, by promoting wide discussions on topics to which Board members contribute and demonstrate mutual engagement. We strive to maintain best practice and continually seek to improve our practices for the benefit of our shareholders.

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.

I also wish to invite all shareholders to attend the AGM, which will be held at our Macclesfield head office on 23 April 2015. This event provides an excellent opportunity to meet the executive and independent non-executive directors.

A.M. Thomson
Chairman

Board performance

2014 key actions	2014 achievements	Priorities for 2015
Implement actions from the 2014 strategy review	Accelerated growth from Specialist Technologies and enhanced business processes	Process recommendations from the 2015 external Board Evaluation
Continued focus on management development and succession planning	The Board and management reviewed management resources during the year	Recruit a new independent director to continue the refreshment of the Board
Appointment of a new Non-Executive Director	Ian Duncan was appointed on 17 November 2014	Appointment of new Audit Committee Chairman and smooth transition with a handover
Continued emphasis on external Board training and development	The Board visited Sweden 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 UK and Polish 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 26 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. We have made progress in addressing the issue of Board gender and diversity by appointing Eva Lindqvist to the Board as a Non-Executive Director on 1 June 2012. We also appointed Ian Duncan as a Non-Executive Director on 17 November 2014 as part of Board refreshment. We will further address this issue when we discuss Board succession planning in the coming year. The Board is kept deliberately small and currently comprises two Executive Directors, four Non-Executive Directors and a Non-Executive Chairman. We believe it is difficult to set targets or timescales for the percentage of women, or any other group, on our Board and do not propose to do so.

Female representation on our Board is currently 14% (2013: 17%) and at manager level it is 27% (2013: 23%). Female representation on the Board has decreased due to the appointment of Ian Duncan in November 2014, and will increase to 17% when John Biles steps down at the 2015 AGM in April 2015. Females represent 17% (2013: 17%) of our total workforce. We will increase female 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 2012's external Board Evaluation, the Board agreed to undertake an internal evaluation in 2014.

To ensure that all aspects of good governance would be covered by the review, the Group Company Secretary distributed to each member a tailored questionnaire. Questions were framed under the following seven headings:

- 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 2014, the directors assessed the conclusions reached and a number of recommendations are in the process of being implemented. Additional emphasis will be placed on risk management and certain operational matters. The Board evaluation covered the activities of the main Board and each of its Committees.

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 overall conclusion is that the Board is performing well and high governance standards have been adopted. It is apparent that the Executive is being strongly challenged by the Board when appropriate.

Arising from the exercise, the Board has concluded that its focus should remain on divisional growth strategies, technology development, risk and sustainability as well as continued training.

The Executive Directors Messrs S.C. Harris and D.F. Landless were also appraised in February 2015.

Led by the Senior Independent Non-Executive Director, the directors have carried out an evaluation of the Chairman's performance in October 2014. The Board is satisfied with the Chairman's commitment and performance.

Training

All new directors are subject to a tailored induction programme covering a diverse range of topics including trading assessment methods, investor relations, organisational and legal matters. 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 through the Deloitte Academy and during the year the directors received training on trends in financial reporting, corporate governance and an economic update.

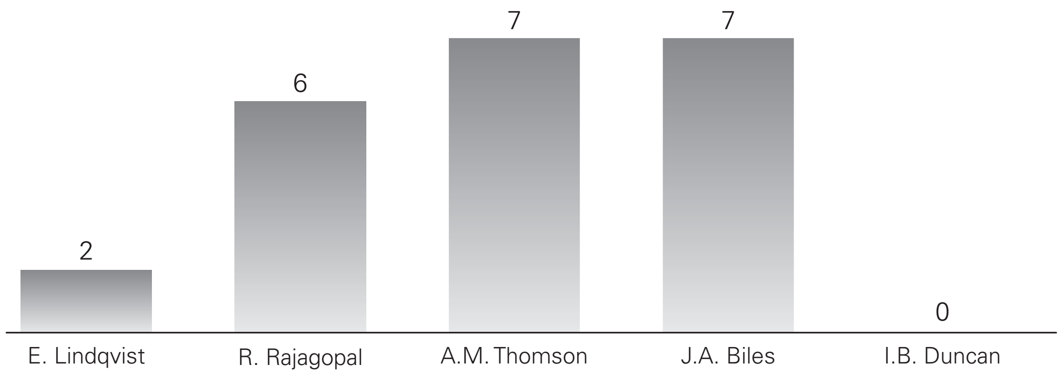
Succession planning

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.

The road map for non-executive refreshment was reviewed by the Nomination Committee at the December 2014 meeting.

Non-executive tenure
(in years)



As a number of our non-executive directors have a tenure of six years or more, Board refreshment will gradually continue over the coming years.

Corporate governance statement continued

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 31.

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 7.5% of the issued share capital of the Group on a non-pre-emptive basis in any rolling three-year period.

Compliance reporting

In respect of the financial year 2014, 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 September 2012 ("the Code").

In respect of the year ended 31 December 2014, Bodycote has complied with the provisions of the Code with the exception of provision E1.1. As in previous years, the Board has taken the view that generally it is the responsibility of the Group Chief Executive and the Group Finance Director 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 by the Group's advisers on investor meetings and results presentations is circulated to all directors. During the year the Chairman and the SID met with shareholders to discuss governance matters.

Apart from this distinct area, Bodycote was in compliance with the provisions of the Code throughout 2014.

In September 2014 the FRC issued the updated UK Corporate Governance Code and areas of non-compliance will be reviewed by the Board during 2015.

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 45 to 65, 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 2014, 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, Mr A.M. Thomson, who also chairs the Nomination Committee. The Group Chief Executive is Mr S.C. Harris and the Senior Independent Non-Executive Director is Mr J.A. Biles, who also chairs the Audit Committee. Ms E. Lindqvist is Chairman of the Remuneration Committee. Brief biographical details of all directors are given on pages 36 and 37. During the year the Board visited a number of UK and overseas facilities, including sites in Sweden and Michigan, USA. Such events involved meetings with local management and the unit workforce to better understand technical and operational performance in countries where Bodycote has a significant presence. Board members also attended the Group Conference held in the USA.

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.

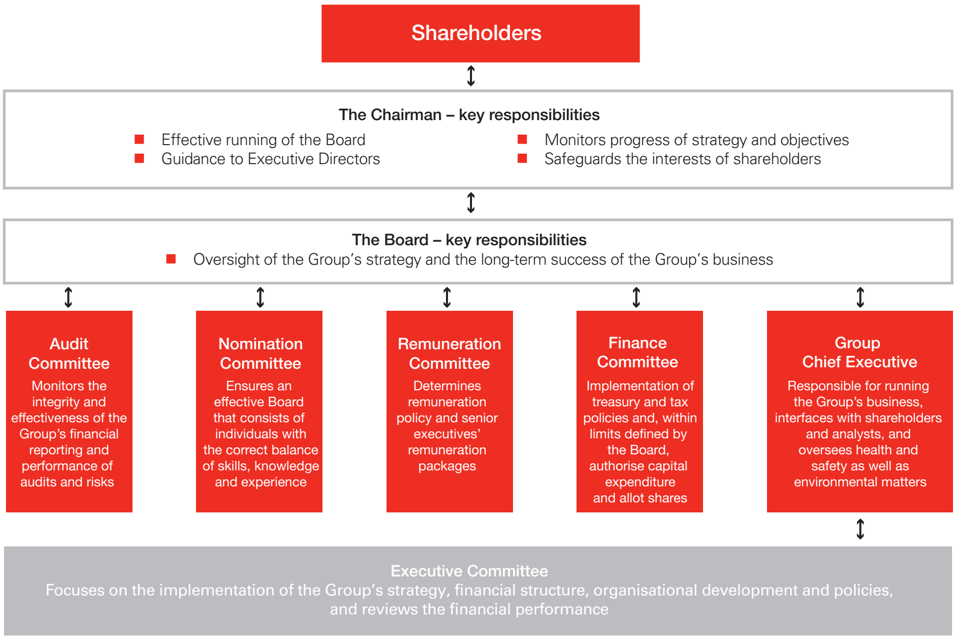
In advance of Board meetings, directors are supplied with up-to-date information regarding the trading performance of each operating division and sub-division, in addition to the Group's overall financial position and its achievement against prior year results, budgets and forecasts. They are also supplied 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 and any who have not stood for re-election at the two previous AGMs, if eligible, must submit themselves for re-election. However, this has been superseded by the directors' decision to 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 66. The Board also operates three main committees. These are the Nomination Committee, the Remuneration Committee and the Audit 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 him, any other non-executive director), the Group Chief Executive and the Group Finance Director 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.



Independence of non-executive directors

The Board considers that J.A. Biles, R. Rajagopal, E. Lindqvist and I.B. Duncan 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:

	Full Board		Audit Committee		Remuneration Committee		Nomination Committee	
Director	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A.M. Thomson	9	9	–	–	5	5	5	5
S.C. Harris	9	9	–	–	–	–	5	5
J.A. Biles	9	9	4	4	5	5	5	5
R. Rajagopal	9	9	4	4	5	5	5	5
E. Lindqvist	9	9	4	4	5	5	5	5
D.F. Landless	9	9	–	–	–	–	–	–
I.B. Duncan	2	2	1	1	2	2	1	1

All directors attended the maximum number of Audit, Remuneration and Nomination Committee meetings that they were scheduled to attend. In addition, non-members Messrs A.M. Thomson, S.C. Harris and D.F. Landless attended by invitation some parts of the meetings of the Audit, Nomination and Remuneration Committees.

Corporate governance statement continued

Proposals for re-election

The Board decided, in line with the Code, that all directors will retire annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly A.M. Thomson, S.C. Harris, D.F. Landless, R. Rajagopal, E. Lindqvist and I.B. Duncan will stand for re-election at the 2015 AGM. Mr J.A. Biles will retire as a Non-Executive Director at the April 2015 AGM. 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 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 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 2014 and continues to operate up to the date of the approval of this report. 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 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. In September 2014 the FRC issued guidance on 'Risk Management, Internal Control and Related Financial and Business Reporting' which replaces the 'Internal Control: Revised Guidance for Directors' currently being applied by the Group. The new guidance comes into effect, and will be applied, in the Group's 2015 accounting period.

The Group prepares a comprehensive annual budget which is closely monitored and updated quarterly. The Group's authority matrix clearly sets out authority limits for those with delegated responsibility and specifies what can only be decided with central approval.

Internal Audit monitors the Group's internal financial control system and its reviews are conducted on the basis of plans approved by the Audit Committee, to which Internal Audit reports are submitted on a regular basis.

Every Bodycote site provides assurance on specified financial and non-financial controls through a control self-assessment process. The results are validated by Internal Audit through spot checks and are reported to the Audit Committee. In addition, the President and the Vice President of Finance of each division sign a letter of representation annually to confirm the adequacy of their systems of internal controls, their compliance with Group policies, relevant laws and regulations, and that they have reported any control weaknesses through the Group's assurance processes.

During 2014, in compliance with provision C.2.1 of the Code, management performed a specific assessment 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, which is summarised from work performed by the Group Head of Risk and the Group's Risk Committee to identify risks (by means of workshops, interviews, investigations and by reviewing departmental or divisional risk registers). Further information about the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 24 to 27. No new significant risks were identified as part of this process, and the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified as part of the reviews.

Investor relations

The Group Chief Executive and Group Finance Director 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. 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 Group Finance Director. The Chairman and SID are available to discuss any issues not resolved by the Group Chief Executive and Group Finance Director. On specific issues, such as the introduction of long-term incentive and share matching schemes in 2006 and changes thereto in 2009, 2010 and 2013, 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
26 February 2015

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 2014.

The Chairman's statement, the Chief Executive's review, the Finance Director's report and all the information contained on pages 36 to 65 together comprise the Directors' report for the year ended 31 December 2014.

Strategic report

The Strategic report is provided on pages 6 to 34 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 2014, key performance indicators, a description of the principal risks and uncertainties facing the Group and information about the use of financial instruments. 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 ordinary dividend of 9.8p (2013: 9.1p) bringing the total ordinary dividend to 14.4p per share (2013: 13.5p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 20.0p per share (2013: 10.0p). If approved by shareholders, the final ordinary dividend of 9.8p per share for 2014 and the supplemental distribution of 20.0p per share for 2014 will be paid on 1 May 2015 to all shareholders on the register at the close of business on 27 March 2015.

Share capital

The Company's issued ordinary share capital as at 31 December 2014 was £33.1m. No shares were issued during the year. At the AGM on 29 April 2014 the shareholders authorised the Company to purchase up to 19,142,409 of its own shares. This authority expires at the conclusion of the forthcoming AGM to be held on 23 April 2015, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 23. 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 27 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 38. 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 pages 36 and 37 and all served throughout the year. 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 2014 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 2015 AGM are A.M. Thomson, S.C. Harris, D.F. Landless, R. Rajagopal and E. Lindqvist. Mr I.B. Duncan, having been appointed by the Board in November 2014, will stand for election at the 2015 AGM. Mr J.A. Biles will step down as a director at the 2015 AGM and will not stand for re-election. The service agreements for Messrs S.C. Harris and D.F. Landless 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 51 to 65. No director has had any dealings in any shares or options in the Company since 31 December 2014. 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 2014 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.

Directors' report continued

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 new 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 until September 2015 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. The Group publishes in 11 languages, via the Group intranet, an electronic magazine for all staff detailing the Group's activities, performance and some of its personalities. 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 2013 or 2014.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 16 February 2015 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 123.

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 ought to have taken as a director to make himself 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 2015 Annual General Meeting will be held on 23 April 2015 in accordance with the notice being sent to shareholders with this report.

By order of the Board:

U.S. Ball
Group Company Secretary
26 February 2015

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

Report of the Nomination Committee

I am pleased to introduce our Nomination Committee report for 2014. The Committee has continued to support the Board during the past year to ensure that its members have the right balance of skills, experience, independence and knowledge which are necessary to meet the expectations of the shareholders in the fast changing business environment in which the Group operates. In November 2014 we took the first step in refreshing the Board with the appointment of Ian Duncan as a Non-Executive Director. John Biles, the current Chairman of the Audit Committee and Senior Independent Director (SID), will stand down at the 2015 AGM and Ian Duncan will take over as Chairman of the Audit Committee. Board succession and composition will remain a priority for the coming year as the Board continues to execute its succession plan.

A.M. Thomson
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 periodically 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 which also comprises J.A. Biles, S.C. Harris, R. Rajagopal, E. Lindqvist and I.B. Duncan (appointed on 17 November 2014). The Chairman may not chair the Committee when it is dealing with the matter of succession to the Chairmanship of the Group. 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 as and when it is appropriate. The quorum necessary for the transaction of business is two, each of whom must be an independent non-executive director.

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.

Nomination Committee - allocation of agenda time

- Board composition and succession planning 80%
- Performance of Group Chief Executive 15%
- Other including corporate governance 5%

Policy on appointments to the Board

Board appointments are made on merit against objective criteria. The issue of diversity was debated by the Board in 2012 and a formal policy adopted. Further details on diversity can be found in the Corporate governance statement on page 38. The Board's policy is to appoint the best possible candidates whilst embracing diversity in all its forms, but the Board has chosen not to set any measurable objectives.

The process of identifying candidates for Board appointments commences with drawing up a job specification which includes, in the case of non-executive appointments, an estimate of the time commitment required. The Committee will then engage executive search consultants to assist in ensuring a comprehensive listing of potential candidates from a range of backgrounds.

As a number of our non-executive directors have a tenure of over six years, we have started the process of refreshing the Board. In anticipation of the retirement of John Biles at the 2015 AGM, the succession of the Audit Committee Chairman was addressed and Ian Duncan was appointed as a Non-Executive Director in November 2014. The step-by-step refreshment of the Board will continue over the next two to three years.

Main activities of the Nomination Committee

In 2014 the Committee formally met four times and reviewed the composition and skills of the Board, with a view to considering the current and future skills and experience that the Board might require.

The Committee discussed 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 Chairman led the ensuing recruitment project and The Zygos Partnership ("Zygos"), an international executive search consultancy, was engaged to identify suitable candidates with relevant experience. Zygos is an independent executive search consultancy and it has no other connections with the Group. Zygos produced a list of candidates and a sub-group of the Committee met with several shortlisted candidates. All members of the Committee and the executive directors met with the preferred candidate prior to confirmation of the appointment. Ian Duncan, a British national and chartered accountant, was appointed to the Board in November 2014. His international and financial experience will be a valuable addition to the Board.

Report of the Nomination Committee continued

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.

In December 2014 the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and committee meetings, and best practice for the handling of a number of Board issues including drawing up a training 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. Having reviewed their independence and contribution to Board matters, the Committee confirms that the performance of each of the directors standing for re-election at the 2015 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, with the exception of John Biles, all current directors of the Company be proposed for re-election at the forthcoming AGM.

Following 2012's external Board Evaluation, the Board agreed to undertake an internal evaluation during 2014. Further details of the review can be found in the Corporate governance statement. Recommendations arising from the 2014 internal evaluation of the Board have been addressed or are in the process of being addressed. An external Board Evaluation will be undertaken in 2015.

As Chairman of the Committee I will be available at the 2015 AGM to answer questions relating to the work of the Committee.

On behalf of the Nomination Committee:

A.M. Thomson
Chairman of the Nomination Committee
26 February 2015

Report of the Audit Committee

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. This year I have given more emphasis to the work actually done by the Committee in addition to the other matters we report upon.

Membership

The members of the Audit Committee are J.A. Biles, R. Rajagopal, E. Lindqvist and I.B. Duncan (who joined on 17 November 2014), all of whom are independent Non-Executive Directors. Their biographical details are shown on pages 36 and 37 and their remuneration on page 63. The Group Company Secretary is the secretary to the Audit Committee.

Mr Biles has been Chairman of the Audit Committee since 16 August 2007 when he was appointed as a Non-Executive Director of the Company. The Board considers that Mr Biles has recent and relevant financial experience. He qualified as a Chartered Accountant with Price Waterhouse & Co, served as a plc Finance Director (FKI PLC 1998–2004 and Chubb Security PLC 1991–1997) and has chaired the Audit Committee of several other PLCs.

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.

Role and responsibilities

The Audit Committee is a sub-committee of the Board whose main role is to encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls.

The responsibilities of the Audit Committee are set out in its Terms of Reference, which include all matters required by the Disclosure and Transparency Rules and the Code, and are available on the Group's website. These responsibilities include:

- reviewing the form and content of the interim and year-end accounts and results announcements;
- reporting to the Board on the appropriateness of the Group's accounting policies and practices and significant areas of judgement;
- advising the Board on whether the Committee believes that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model and performance;
- reviewing risk management and internal controls;
- overseeing the relationship with the external auditor; and
- assessing the performance and reviewing the scope, results and effectiveness of internal audit.

Committee meetings

The Audit Committee met four times during 2014 and in February 2015 and all members attended all meetings that they were eligible to attend. The Committee Chairman also invited the Chairman, Group Chief Executive, Group Finance Director, 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.

Mr Biles also held preparatory meetings separately with Deloitte and the Group Head of Risk prior to most Committee meetings to review their reports and discuss issues in detail. The external auditor 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 International 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.

Report of the Audit Committee continued

Principal areas of judgement

The principal areas of judgement considered by us in relation to the 2014 accounts were as follows:

- Impairment of goodwill, intangible and tangible fixed assets. The Committee challenged 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 and intangibles and tangible assets. Details of the sensitivity analysis applied to key assumptions used in the impairment review are set out in note 10 to the Financial Statements on page 91. The Committee has concluded that no impairment charge is required in 2014.
- 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 Annual Report. The Committee discussed with management the key judgements behind all 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 the 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.
- 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 all 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 and life expectancy, 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 to 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.

Internal control

At each meeting the committee considered and challenged reports from the internal auditors on the effectiveness of internal controls and requested certain changes to those 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 Internal Controls Guidance for Directors in the Combined Code (the Turnbull Guidance).

Internal audit

The internal audit plan for 2015 was presented to the Committee in December 2014 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.

External audit

At the April and December 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. In 2014 the Committee considered carefully the scope in respect of smaller and more remote locations and noted that all local audits are undertaken by Deloitte.

Cyber risk

The members of the Committee completed the cyber risk questionnaire produced by the Department for Business Innovation and Skills and the Committee was further briefed on this important area by specialists from Deloitte. A cyber security improvement plan was proposed by and agreed with the Chief Information Officer. The points identified are being progressively implemented, with the most important matters having been concluded during 2014.

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 2014 Annual Report and was specifically tasked by the Board to advise it on whether the 2014 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 2014, the Committee has decided to recommend to the Board that Deloitte be reappointed for the 2015 audit and a resolution to this effect will be put to the 2015 AGM. The Committee reviewed and agreed the fee for 2014.

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. The current lead partner, Mrs N. Mitchell, has been in place for five years and will be replaced by another Deloitte lead partner in 2015.

Deloitte has been the Group's auditor for 13 years and in 2013 the Committee had decided that the audit would be put out to tender in 2014 to coincide with the end of the lead audit partner's five year tenure. However, as the Competition & Markets Authority has now issued its final form order clarifying transitional provisions and modifying requirements, and in view of the changeover of the Chairman of the Audit Committee, it has been decided to delay the tender process until after the new Chairman is appointed.

Independence

The independence of the external auditor has been confirmed by Deloitte every half year and was last confirmed in February 2015. The Committee considered Deloitte's presentation and confirmed that it considered the auditor to be independent.

Effectiveness of the external audit process

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 has been completed by each member of the Committee, by the Group Finance Director 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. As the full formal questionnaire was completed in 2013, only key areas were completed for this 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 May 2014. 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. However, 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 88 and amounted to 6% of the audit fee.

Report of the Audit Committee continued

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 ("Ernst & Young") since 2012 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 Ernst & Young 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.

Since the beginning of 2013, 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.

In 2014 Ernst & Young attended one Committee meeting to give the members of the Committee an opportunity to hear first-hand from them about their work.

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Risk and the Ernst & Young engagement partner. In 2014 internal audit was assessed as effective.

Committee evaluation

The Committee's activities formed part of the review of Board effectiveness which was undertaken internally this year. 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:

J.A. Biles
Audit Committee Chairman
26 February 2015

Board report on remuneration

Introduction

As Chairman of the Remuneration Committee ("the Committee") and on behalf of the Board of Directors I am pleased to present our Board report on remuneration, based on the policy and disclosure requirements on directors' remuneration, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations").

Last year saw significant change to the public disclosure of remuneration for executive directors. At the 2014 AGM, Bodycote put forward its Remuneration Policy for a binding shareholder vote and received overwhelming support, with 96% of shareholders voting in favour of our policy.

Consistent with last year, this report consists of two sections. The first part (Section A) summarises the policy of the Board with regard to the remuneration of the directors and is a re-statement of the Remuneration Policy that was approved at the 2014 AGM. The second part (Section B) describes how the policy was implemented in 2014 and how it will be implemented in 2015. Section B will be subject to an advisory vote.

It is intended that Section A will be put forward to shareholders again at the 2017 AGM and Section B will continue to be put to the AGM each year on an advisory basis.

2014 performance and remuneration outcomes

2014 has been another successful financial year for Bodycote. While Group revenue decreased by 1.7%, there was an increase of 4.0% at constant exchange rates. Headline operating profit grew by 3.4% and headline earnings per share increased by 6.3% in 2014, compared to an indicative increase of 3.9% in the FTSE 250 as a whole.

2014 base salary increases for the Executive Directors in the year were 3.0% for the Group Chief Executive and 3.0% for the Group Finance Director. These increases compare to average 2014 salary increases across the Group of 2.9%.

Annual bonuses for the Executive Directors, which are based on a mix of Group headline operating profit, Group headline operating cash flow and personal strategic objectives, paid out at 94.3% and 71.1% of base salary for the Group Chief Executive and Group Finance Director respectively (equivalent to 72.5% and 71.1% of maximum opportunity).

Awards under the Co-investment Plan (CIP) made in May 2011 vested in May 2014 at 100% of maximum based on absolute Total Shareholder Return (TSR) growth in the three financial years ending April 2014.

Awards under the Bodycote Incentive Plan (BIP) made in February 2012 are due to vest in March 2015 at 44.3% of maximum based on a combination of return on capital employed (ROCE) and headline earnings per share (EPS) growth for the three financial years ended December 2014.

Changes to remuneration arrangements

Following a contractual review of pension provision during 2013, the Committee decided that the level of salary supplement in lieu of pension for Stephen Harris should be adjusted to 25% of salary. For David Landless, the salary supplement in lieu of pension was adjusted to 25% of basic salary, up to the defined benefit pension scheme cap. The amount paid above that cap remained at 16% of basic salary. The changes came into effect on 1 April 2014.

Our Chairman, Alan Thomson, elected to forgo an inflationary increase in fees in 2013. Therefore, Mr Thomson's fees have remained unchanged at £150,000 for the past two years. It was decided that with effect from 1 January 2014, the Chairman's fee would be increased to £160,000. This decision was taken so that Mr Thomson's fees reflect the full scope of his role and responsibilities.

During the year, the Committee considered the revisions made to the UK Corporate Governance Code produced by the Financial Reporting Council in September 2014. At this time, the Committee is satisfied that Bodycote's existing Remuneration Policy continues to comply with the Code. The Committee will continue to review ongoing developments in UK corporate governance and how these might impact Bodycote's Remuneration Policy.

As the Remuneration Policy for Executive Directors was approved at the 2014 AGM, no changes have been made to the remuneration framework and policy this year. The decisions that we have taken this year have been within the framework of our existing Remuneration Policy, as approved by our shareholders.

E. Lindqvist
Chairman of the Remuneration Committee
26 February 2015

Board report on remuneration continued

Section A: Directors' Remuneration Policy

This section is a restatement of the Directors' Remuneration Policy approved by our shareholders at the 2014 AGM. Where relevant, we have updated how the policy will apply in 2015. We have also updated the scenario charts, taking into account 2014 base salaries.

Remuneration Policy

The objective of Bodycote's Executive Remuneration Policy is to provide remuneration that will reward and thereby retain talented people in the business and enable the recruitment of appropriately skilled and experienced newcomers. Therefore, the Executive Remuneration Policy is to set levels that attract and retain the talent responsible for executing strategy while ensuring the Group pays no more than is necessary.

Executive Remuneration Policy

The table below presents the Executive Director Remuneration Policy that was approved by Shareholders on 29 April 2014. It is anticipated that this Remuneration Policy will apply for the period until the 2017 AGM.

Pay table

Pay element and link to strategy	Maximum value	Operation
Base salary *To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than is necessary*	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. Increases may be above this level in certain exceptional circumstances, which may, for example, include: ■ Increase in scope or responsibility ■ A new Executive Director is being moved to market positioning over time	Base salaries for Executive Directors are typically reviewed annually (or more frequently if specific circumstances necessitate this) by the Committee in December each year. Salary levels are set and reviewed taking into account a number of factors, including: ■ Role, experience and performance of the executive ■ The Group'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
Pension *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*	Group contribution (or cash equivalent) of 30% of salary.	The Group operates a defined contribution scheme. The policy for Executive Directors is to make a contribution to this scheme or a cash allowance of equivalent value[1]. Base salary is the only pensionable element of remuneration. The same general approach applies to all employees, although contribution levels vary by seniority.
Other benefits *Provides market-competitive benefits at an appropriate cost*	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.	The Group 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. 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. The Group provides a long-term savings vehicle into which the Executive Directors may elect to waive a proportion of pension allowance. In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice.

[1] As of April 2014, cash in lieu of pension entitlements are, for Stephen Harris, 25% of salary and, for David Landless, 25% of salary up to the cap of the Company's defined benefit pension scheme (in which he ceased to participate in April 2012) and 16% of salary above this cap.

Pay element and link to strategy	Maximum value	Operation
Annual bonus *To incentivise delivery of corporate strategy and reward delivery of superior performance*	The maximum potential is 130% of base salary for the Group Chief Executive and 100% of base salary for other Executive Directors.	The level of bonus paid each year is determined by the Committee, after the year end, based on performance against targets. At least 70% of the bonus will be based on the achievement of Group financial targets. For 2015: ■ 70% of bonus is determined by Group headline operating profit against set targets ■ 10% of bonus is determined by Group headline operating cash flow against set targets ■ 20% of bonus is determined by the achievement of personal objectives, which may vary year-on-year to ensure that objectives are aligned with the business plan but our policy is to set goals which relate to the achievement of business strategy The weighting of these measures and specific targets is reviewed on an annual basis to ensure alignment to strategy and is set to be in line with budget. Information on measures and weights that applied for 2013 and 2014 are shown on pages 61 and 62 of the Annual report on remuneration. The Committee considers the performance conditions selected for the annual bonus to appropriately support the Group's strategic objectives and provide a balance between generating profit and cash to enable the Group to pay a dividend, reward its employees and make future investments; and achieve other strategic goals to drive long-term sustainable return. At the threshold performance level there will normally be no more than 30% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full. Bonus payments are subject to the Committee's Malus Policy as outlined on page 55.
Bodycote Incentive Plan (BIP) *To incentivise delivery of long-term shareholder value* *Aids retention of senior management*	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.	The BIP is our primary long-term incentive plan. Conditional shares are awarded annually with vesting dependent on performance conditions measured over at least three years. Awards will be based on financial (and/or share price based) performance conditions as determined by the Committee. The performance conditions for awards granted in 2015 are as follows: ■ 50% of the award is subject to a ROCE performance condition and 50% of the award is subject to a headline EPS performance condition. ■ At the threshold performance level there will be zero vesting. Awards commence vesting progressively from zero on achievement of threshold performance with maximum performance resulting in awards vesting in full. ■ In addition, for any award to vest (regardless of targets achieved) headline EPS must not be below a defined hurdle level.

Pay element and link to strategy	Maximum value	Operation
Bodycote Incentive Plan (BIP) continued		The Committee reviews levels of awards and targets annually. In determining the performance targets applicable to awards, the Committee takes into account the current and forecast performance for the business and its sector, along with broker consensus, to ensure stretch targets are set. Targets for each award are set out in the relevant Annual report on remuneration. Targets that apply to awards made in 2014 are shown on page 62 of the Annual report on remuneration. The Committee considers the performance conditions selected for the BIP to appropriately underpin the Group's strategic objectives. Due to the nature of the Group's activities, the Committee consider ROCE to provide shareholders with an appropriate measure of how well the Group is performing and is being managed, while headline EPS provides a measure of the level of value created for shareholders. ROCE and headline EPS are our top two KPIs as shown on page 62 of the Annual Report. 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 Annual report on remuneration. Dividend equivalents are payable in respect of the shares which vest. BIP awards are subject to the Committee's Malus Policy as outlined on page 55.
Co-investment Plan (CIP) *To provide a link between short- and long-term incentive arrangements and to provide further alignment with shareholders*	Executive Directors can receive a maximum matching share award of up to 40% of basic salary.	Executive Directors are invited annually to purchase shares up to 40% of basic salary (net of tax). 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 matching shares will be based on share price-related performance conditions as determined by the Committee. For 2015: 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 a1:1 match The calibration of performance targets is reviewed by the Committee on an annual basis and is chosen in order to align with business strategy. Targets for the cycle vesting in respect of the year are disclosed in the Annual report on remuneration. Dividend equivalents are payable in respect of the matching shares which vest. The Committee considers it appropriate to use an absolute TSR performance measure for awards made under the CIP so that participants are incentivised towards and rewarded for providing absolute returns for shareholders. CIP awards are subject to the Committee's Malus Policy as outlined on page 55.

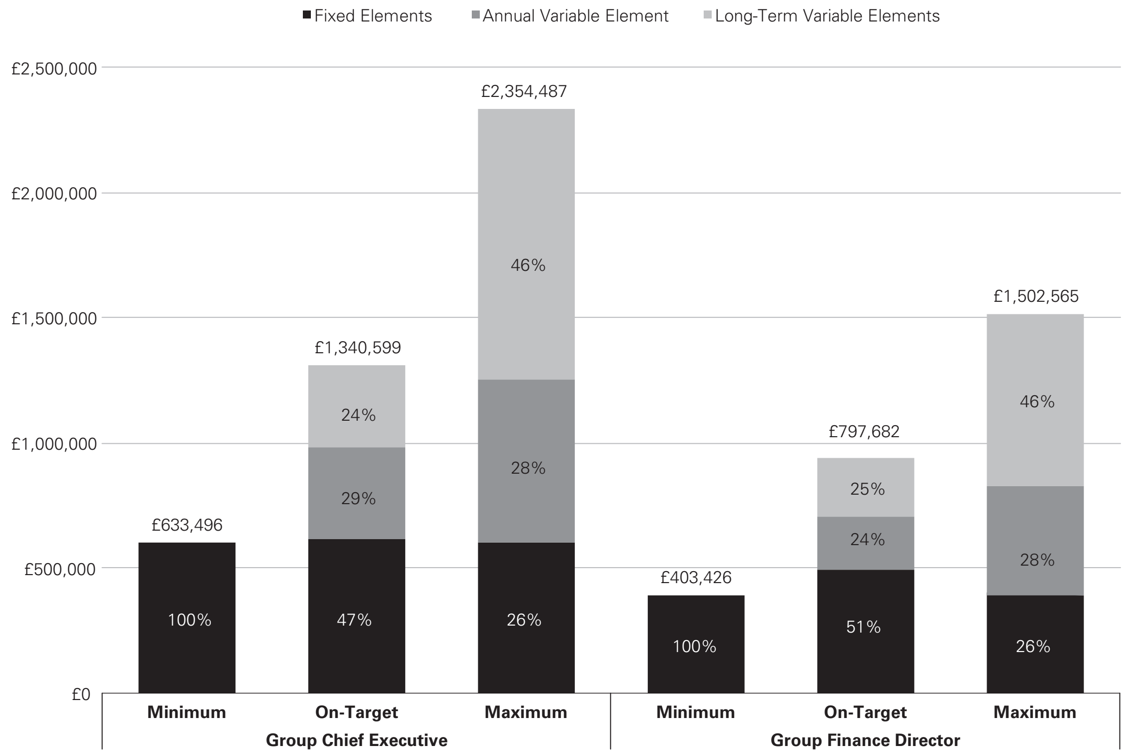
Pay element and link to strategy	Maximum value	Operation
Shareholding requirement *To provide alignment between Executive Directors and shareholders*	Executive Directors are required to hold at least 100% of basic salary.	The Board operates a shareholding retention policy under which Executive Directors are expected, within five years from appointment, to build up a shareholding in the Company. The expectation is to hold at least 100% of basic salary. For the purposes of this requirement, only beneficially-owned shares will be counted.
Malus *To provide the Committee flexibility to adjust remuneration levels in exceptional circumstances*	Not applicable.	The Malus Policy provides the Committee with discretionary powers to use malus performance-based remuneration, should exceptional circumstances occur. This Malus Policy is in respect of annual bonuses and long-term incentive awards. Exceptional circumstances necessitating malus would include: ■ Fraud; ■ Misconduct; ■ Significant misstatement of financial results; or ■ Miscalculation of performance conditions. Should the Committee, in its opinion, consider such circumstances to have occurred during a performance period from 2013 onwards then the Malus Policy will provide the Committee discretion to determine that any amounts paid or awards vested by reference to the relevant period shall be subject to malus. Malus applies to awards made from 2013. The Committee expects the mechanism to use malus for any such amounts will be to reduce future annual bonus payments, reduce the value of subsisting awards that have, at the relevant time, not yet vested or by reducing the level of award to be made at the following grant date.

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 page 57, 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 Group 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 Group 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.

Illustrative remuneration outcomes at different performance levels

The charts below demonstrate the total amount of remuneration payable to the Executive Directors should they achieve below, at or above target performance.



For the purposes of this analysis, the following assumptions have been made:

- Fixed elements comprise base salary and other benefits:
  - For the Group Chief Executive: base salary of £498,838 and maximum potential benefits of £134,658.
  - For the Group Finance Director: base salary of £318,591 and maximum potential benefits of £84,835.
- Base salary reflects the base salary as at 1 January 2015.
- Benefits reflect benefits received in 2014.
- For on-target performance, an assumption of 60% of annual bonus is applied and vesting of 25% of the maximum for the BIP and 0.5:1 match for the CIP.
- The value of the BIP and the CIP is based on the percentage of salary prior to the year of grant. The actual value on vesting will depend on the share price on the vesting date, which is likely to be different from the date of grant.
- The CIP assumes maximum contribution from the Group Chief Executive and Group Finance Director.
- No share price increase has been assumed.

Recruitment policy

When recruiting new executive directors, the Group'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 Remuneration Policy table on page 52. Each element of remuneration to be included in the package offered to a new director would be considered separately and collectively in this context.

On appointment to the Board or for a non-executive director taking an executive role:

- Base salary levels will be set 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 Group and current market levels for the role.
- 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 the other executive director(s).
- 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 Group and shareholders, the Committee may consider providing additional benefits, potentially including relocation costs, tax equalisation or advisers' fees.
- The initial notice period may be longer than the Group's one year policy (up to a maximum of two years). However, this will reduce by one month for every month served, until the Group's policy position is reached.
- For annual bonus, the Group would consider whether it was appropriate for the new recruit to participate in the same annual incentive plan applicable to the current executive directors. If this was considered appropriate, the same financial measures, weighting, payout scale and target as well as maximum bonus opportunity (as a percentage of salary) which apply to the existing director(s) would generally apply to the new recruit.
- The Committee will determine when long-term incentive awards will be granted during the year.
- The Group is required to set out the maximum amount of variable pay which could be paid to a new director in respect of his recruitment. In order to provide the Group 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 "buy-out" payments or awards associated with forfeited 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 Group 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 "buy-out" 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 Group's recent performance and payout levels and any other factors we consider appropriate. If a buy-out 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 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 buy-out award has been granted.

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 on page 52.

Termination Remuneration Policy

It is the Group'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.

Currently, under the terms of the executive directors' contracts, the Group 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.

Our policy is not to have a change of control clause in executive directors' service contracts. S.C. Harris does not have a change of control clause. D.F. Landless' service contract was agreed in accordance with what was considered best practice at the time of its execution in 2001 and provides for one year's remuneration if his employment is terminated on a change of control. This provision has been preserved. 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 of control or for payments in lieu of notice.

In the event that an executive director leaves the Group, 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.

On cessation of employment, awards under the BIP and CIP will lapse in full, unless the Committee in its absolute discretion determines otherwise. In instances where the Committee determines that awards should not lapse in full, the Committee will consider the performance conditions applying to any unvested awards and the performance period which has elapsed. Awards will usually be subject to some form of time pro-rating reduction to reflect the unexpired portion of the performance or deferral period concerned. Awards that are subject to performance conditions will usually only vest to the extent that these conditions are satisfied. Awards which do not lapse on cessation of employment may either vest at that time or on their originally anticipated vesting date.

On termination, the accumulated funds invested in the Bodycote Investment Incentive Plan (further information on this long-term savings vehicle is available on page 61) will normally be released to the participant, subject to Committee discretion.

On change of control the awards will generally vest subject to performance and time apportionment as determined by the Committee and in accordance with the rules of the relevant plan.

Service contracts

All directors' service contracts 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:

	Group Chief Executive	**Group Finance Director**
Date of service contract	6 October 2008	26 September 2001
Notice period	12 months	12 months
Remuneration	■ Annual base salary ■ Potential for cash in lieu of pension ■ Reimbursement of expenses (if satisfactory evidence is provided) ■ Private medical insurance ■ Company car allowance ■ Entitlement to receive an annual performance related bonus award	■ Annual base salary ■ Potential for cash in lieu of pension ■ Reimbursement of expenses (if satisfactory evidence is 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
Termination	The Group has the right to terminate on payment of a termination payment with agreement of executive	The Group has the right to terminate on payment of a termination payment
Non-competition	During employment and for 12 months thereafter	During employment and for 12 months thereafter

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

Chairman and Non-Executive Directors Policy

The Chairman and each Non-Executive Director hold letters of appointment, which have been agreed and set out the terms of their appointment, including membership of the Board Committees, the fees to be paid and the time commitment expected from the director.

It is the Board's policy that the Chairman and Non-Executive Directors' fees are reviewed on an annual basis. The fees for the Chairman are reviewed by the Board in the absence of the Chairman. The fees for the Non-Executive Directors are reviewed by the Chairman and Executive Directors. When reviewing fees, the primary source for comparative market data is FTSE 250 companies and other companies of similar size and complexity, as appropriate.

The Committee seeks to recruit Non-Executive Directors with the experience and balance of personal skills that will make a major contribution to the Board and its committee structures, and, consequently, ensures that fees are set at a level that will attract such individuals.

The Group'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 for further responsibilities (for example, Senior Independent Directorship). Fee levels take into account the level of time commitment, duties and responsibilities involved. The Chairman and Non-Executive Directors are not entitled to any pension or other employment benefits or to participate in any incentive scheme. In line with the Articles of Association, accumulative Non-Executive Director fees are capped at £500,000 per annum.

Director	Date of appointment	Notice period
A.M. Thomson	1 December 2007	6 months
J.A. Biles	16 August 2007	6 months
R. Rajagopal	24 September 2008	6 months
E. Lindqvist	1 June 2012	6 months
I.B. Duncan	17 November 2014	6 months

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 such a position at Mondi plc since 1 March 2011 and in accordance with Group policy he retained fees for the year of £85,175. D.F. Landless was appointed a Non-Executive Director of Luxfer Holdings plc with effect from 1 March 2013 and retained fees for the year of £46,955. In addition D.F. Landless was given 3,772 of Luxfer American Depositary Receipts valued at $70,084 at the date of grant on 30 May 2014.

Statement of consideration of employment conditions elsewhere in the Group

The Group 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 Group 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 and feedback from employee satisfaction surveys.

In formulating Executive Director pay policy, the Committee receives information on all employee pay conditions throughout the Group.

Statement of consideration of shareholder views

The Committee always welcomes the views of shareholders in respect of pay policy, in addition to those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration related comments made at the Group's AGM and feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and, where appropriate, amendments are made to the Remuneration Policy.

Board report on remuneration continued

Section B: Annual report on remuneration

Committee membership

During 2014 the Committee was chaired by E. Lindqvist. The Committee also comprised J.A. Biles, A.M. Thomson, R. Rajagopal and I.B. Duncan (appointed 17 November 2014).

The Committee's full terms of reference are available on the Group's website. No Committee members have any personal financial interest (other than as a shareholder), conflict of interest, cross-directorships or day-to-day involvement in the running of the business.

Committee activities

During 2014 the Committee met five times and once in February 2015 to consider, amongst other matters:

Theme	Agenda items
Best practice	■ The Group's Remuneration Policy, discussions and feedback from the Group's AGM in 2014 and the revised 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
Remuneration Policy	■ Consideration and approval of the Remuneration Policy to be put to shareholders, as summarised in Section A of the Board report on remuneration
Implementation Report	■ Consideration and approval of the Implementation Report to be put to shareholders and as summarised in Section B of the Board report on remuneration
Executive Directors' and senior executives' remuneration	■ Basic salaries payable to each of the Executive Directors ■ The annual bonus and payments for the year ended 31 December 2014 ■ The annual bonus structure and performance targets for the year ended 31 December 2015 ■ The conditional awards and vestings made under the Bodycote Incentive Plan (BIP) and Co-investment Plan (CIP) during the year ■ Pension arrangements for senior executives
Reporting	■ Consideration and approval of the Board report on remuneration

Advisers to the Committee

The Committee is advised by Towers Watson on remuneration matters including providing advice on matters under consideration by the Committee, updates on good practice, legislative requirements and market practice. Towers Watson's fees for this work amounted to £17,875. Legal advice was provided by Eversheds and fees amounted to £9,545. 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 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 resolutions at the 2014 AGM:

	2013 Board report on remuneration (% votes)	2013 Directors' Remuneration Policy (% votes)
Votes cast	79%	79%
For	99%	96%
Against	1%	4%
Number of abstentions	37,018	40,318

Remuneration for 2014

This section of the report explains how Bodycote's Remuneration Policy has been implemented during the financial year.

Base salary

The base salaries of the Executive Directors are reviewed on an annual basis. As described in Section A: Directors' Remuneration Policy, a number of factors are taken into account when salaries are reviewed, principally market level salaries payable in FTSE 250 companies and other companies of similar size and complexity, and the individual's role, experience and performance. The 2014 base salary increases and comparative figures can be found in the Remuneration Committee Chairman's letter.

Base salaries are reviewed in January every year.

Name	Position	Salary from 1 January 2014	Salary from 1 January 2015
S.C. Harris	Group Chief Executive	£484,306	£498,838
D.F. Landless	Group Finance Director	£309,312	£318,591

Pension

Following a contractual review of pension provision during 2013, it was decided that the salary supplement in lieu of pension rate should be increased for both Executive Directors. This was implemented on 1 April 2014.

S.C. Harris is 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.

D.F. Landless no longer participates in the Group's UK contributory defined benefit and defined contribution pension schemes due to him prospectively reaching the lifetime limit. Instead Mr Landless receives a salary supplement of 25% of basic salary up to the defined benefit scheme cap and 16% of basic salary above the cap, of which £63,287 was waived during the year. In addition, a death in service benefit of eight times basic salary is payable.

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	Salary supplement
S.C. Harris	£13,600	£2,400	£1,214	£117,444
D.F. Landless	£18,830	£1,200	£1,518	£63,287

Long-term savings vehicle

During the financial year the Group made discretionary contributions into the Bodycote Investment Incentive Plan. The plan is entirely cash-based to provide an alternative long-term savings vehicle for senior executives. The Committee considers the plan an essential tool to aid retention while recognising the need for executives to have flexibility in long-term financial planning. Group contributions are discretionary, vary year-on-year and are made in lieu of other elements of pay and therefore are cost neutral to the Group. Any risk in relation to the value of investments made in the plan is borne entirely by participants.

Annual performance-related bonus

Retrospective disclosure of 2013 annual bonus targets

In last year's Annual report on remuneration, the Committee communicated its intention to retrospectively disclose information in respect of the 2013 annual bonus targets. The table below provides details of the annual bonus awards received in respect of the Group and individual performances in the 2013 financial year.

The financial performance of the Group was strong in 2013. Our reported revenues increased by 5.4% (3.0% at constant exchange rates) and headline operating profit grew by 10.2%. The actual payout, as a percentage of the total award, in respect of Group headline operating profit and Group headline operating cash flow, was 26.8% and 10.0% respectively. The targets for Group headline operating profit and Group headline operating cash flow were £107.8m and £93.8m respectively. The Committee also assessed the Group Chief Executive and Group Finance Director's performance against their personal objectives, which included targets relating to safety, customer service and implementation of major projects. The Committee concluded that personal strategic objectives were achieved on target at a level of 13.8% and 12.0% for the Group Chief Executive and Group Finance Director respectively.

		Performance range (threshold to stretch)			Actual payout (% of award)	
Measures	Weighting	Threshold	Target	Above target	Group Chief Executive	Group Finance Director
Financial (80% of award)						
Group headline operating profit	70%				26.8%	26.8%
Group headline operating cash flow	10%				10.0%	10.0%
Personal (20% of award)						
Personal strategic objectives	20%				13.8%	12.0%
Total					**50.6%**	**48.8%**

Strategic report
Governance
Financial statements
Additional information

Board report on remuneration continued

2014 Annual bonus

The annual bonus potential for the period to 31 December 2014 for Executive Directors was split 70% in respect of Group headline operating profit, 10% Group headline operating cash flow and 20% 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.

The performance of the Group during the year included headline operating profit of £111.1m (a 3.4% increase on the previous year, 9.2% at constant exchange rates) and headline operating cash flow of £100.0m (an 8.2% decrease on last year).

In light of the above performance, the Committee concluded that 72.5% of maximum bonus is payable to the Group Chief Executive and 71.1% of maximum bonus is payable to the Group Finance Director. As described in Section A: Directors' Remuneration Policy, 100% of annual bonus is payable in cash.

Similar to the approach taken last year, it is the Committee's intention to disclose information relating to the performance targets for 2014 annual bonus awards in next year's Annual report on remuneration, unless disclosure of the targets would provide competitors with commercially sensitive information.

Bodycote Incentive Plan (BIP)

Awards with performance periods ending in the year

BIP awards made in 2012 had a three-year performance period ending on 31 December 2014, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to a headline EPS target. 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%	32.6p	0%
Maximum performance	23.0%	100%	62.2p	100%
Performance achieved	**20.7%**	**67.2%**	**43.8p**	**21.4%**

If headline EPS at the end of the performance period was below 31.1p, then no awards would vest. Over the period, ROCE was 20.7% and the headline EPS figure for the year of 43.8p represented growth of 6.3%. This performance resulted in the ROCE and headline EPS targets being achieved at a level of 67.2% and 21.4% respectively. This resulted in an overall vesting level of 44.3%. The number and value of shares which vested to each of the Executive Directors is set out on page 65 of this report.

Awards made in the year

BIP awards with a face value of 175% of salary were granted to both Executive Directors in April 2014 and will vest in March 2017, subject to the achievement of ROCE and headline EPS growth performance targets. The performance period will end on 31 December 2016. The vesting of these awards will be based on ROCE and headline EPS targets summarised in the table below. The Committee has reviewed the performance targets and these have been altered accordingly to ensure that they remain stretching targets which underpin the Group's objectives.

	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%

If headline EPS at the end of the performance period is below 41.8p, then no awards would vest. The Committee has decided that the ROCE figure of 23% is a good aspiration for the Group and is cognisant of the fact that overdriving incentives on capital employed can lead to unintended consequences in terms of short-term capital under investment for the business. Dividend equivalents are payable in respect of those shares that vest.

The number and value of shares that were awarded to the Executive Directors during the year is set out on page 65.

Co-investment Plan (CIP)

Awards with performance periods ending in the year

As described in Section A: Directors' Remuneration Policy, CIP awards are subject to an absolute TSR target. The CIP awards made in 2011 had a three-year performance period ending on 30 April 2014. 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 TSR growth of 36.3%. This performance resulted in the TSR targets being achieved at a level of 100%. The number and value of shares which vested to each of the Executive Directors is set out on page 65.

Awards made in the year

CIP awards were made to both Executive Directors in May 2014 and will vest in May 2017, subject to the achievement of absolute TSR targets summarised in the table below. The Committee reviewed the performance targets and felt that they remain appropriately stretching. Therefore, no change has been made to the absolute TSR performance targets used in the previous year. Dividend equivalents will be payable in respect of the shares which vest.

	Threshold		**Maximum**	
Performance target	**Target**	**Vest**	**Target**	**Vest**
Absolute TSR	4% CAGR + CPI	50% (0.5:1 match)	10% CAGR + CPI	100% (1:1 match)

The number and value of shares that were awarded to the Executive Directors during the year is set out on page 65.

Implementation of policy in 2015

Base salary is reviewed on an annual basis. The 2015 base salary increases from 1 January 2015 were 3.0% for the Group Chief Executive and 3.0% for the Group Finance Director. As 2015 base salary increases for the Group are applied after the publication of this report, the comparative figure for 2015 can only be provided in next year's report. The comparative figure for 2014 is disclosed in the Remuneration Committee Chairman's letter on page 51.

The Committee does not intend to change the benefit arrangements for the Executive Directors in 2015. For 2015 the Committee has determined that the annual bonus opportunity for Executive Directors and senior executives will again be contingent on meeting targets relating to operating profit, cash management and personal objectives. The Committee has reviewed targets for the year to ensure they remain appropriately stretching and relevant for the Group's business strategy.

The Committee will review the performance measures for awards under the CIP and the BIP in 2015 to ensure they remain appropriately stretching in light of the Group's expectations in relation to performance.

Auditable section

Total single figure table

Incumbent	Financial year	Total salary/ fees £000	Total other benefits[1] £000	**Total fixed pay £000**	Annual bonus £000	Total BIP[2] £000	Total CIP[3] £000	**Total LTI £000**	**Total variable pay £000**	**Total £000**
Executive Directors										
S.C. Harris	2014	484	135	**619**	456	652	76	**728**	**1,184**	**1,803**
	2013	470	121	**591**	278	1,760	460	**2,220**	**2,498**	**3,089**
D.F. Landless	2014	309	85	**394**	220	417	20	**437**	**657**	**1,051**
	2013	300	84	**384**	132	1,178	44	**1,222**	**1,354**	**1,738**
Non-Executive Directors										
A.M. Thomson	2014	160	–	**160**	–	–	–	**–**	**–**	**160**
	2013	150	–	**150**	–	–	–	**–**	**–**	**150**
J.A. Biles	2014	63	–	**63**	–	–	–	**–**	**–**	**63**
	2013	61	–	**61**	–	–	–	**–**	**–**	**61**
R. Rajagopal	2014	50	–	**50**	–	–	–	**–**	**–**	**50**
	2013	46	–	**46**	–	–	–	**–**	**–**	**46**
E. Lindqvist	2014	58	–	**58**	–	–	–	**–**	**–**	**58**
	2013	56	–	**56**	–	–	–	**–**	**–**	**56**
I.B. Duncan[4]	2014	8	–	**8**	–	–	–	**–**	**–**	**8**

Notes accompanying the total single figure table

1 Other benefits consist of company car (or allowance), family level private medical insurance and salary supplement. Life assurance cover and sick pay are also provided.

2 The 2014 figures relate to BIP awards made in 2012 with performance periods ending on 31 December 2014. The shares vested on 2 March 2015 at a share price of 760.5p.

3 The 2014 figures relate to CIP awards made in 2011 with performance periods ending 30 April 2014. The shares vested in May 2014 at a share price of 713p.

4 I.B. Duncan was appointed in November 2014.

Directors' shareholdings

The interests in ordinary shares of directors and their connected persons as at 31 December 2014, including any interests awarded under the CIP or BIP, are presented below.

As at 26 February 2015, the interests of the Directors were unchanged from those at 31 December 2014.

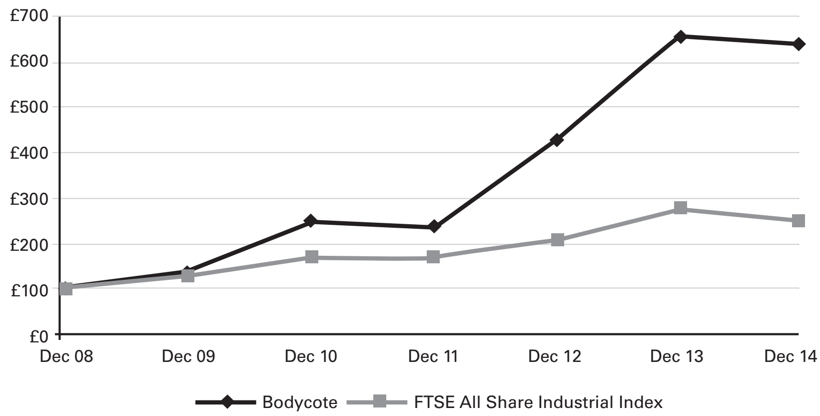
	Beneficial	Shares subject to performance conditions BIP[1]	Shares subject to performance conditions CIP[1]
Executive Directors			
S.C. Harris	579,812	449,728	11,450
D.F. Landless	500,493	287,248	23,299
Non-Executive Directors			
A.M. Thomson	44,312	—	—
J.A. Biles	24,962	—	—
R. Rajagopal	22,368	—	—
E. Lindqvist	5,000	—	—
I.B. Duncan	—	—	—

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

As described in Section A: 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. In respect of Executive Directors, the expectation is to hold at least 100% of basic salary. For the purposes of this requirement, only beneficially-owned shares will be counted. As at 31 December 2014, the Committee is satisfied that Executive Directors have fulfilled this requirement.

Comparison of overall performance and pay

The chart below shows the value over the last seven 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 the most reasonable comparison in terms of performance. The points plotted represent the values at each financial year end.



The table below shows how total remuneration for the Group Chief Executive has developed over the last five years.

	2010	2011	2012	2013	**2014**
Single figure of remuneration £000	906	3,252	3,840	3,089	**1,803**
Annual variable element award (as a % of maximum) opportunity	98%	95%	73%	46%	**73%**
Long-term incentive vesting (as a % of maximum)	0%	100%	100%	99%	**44%**

The total value of salary, non-pension benefits and bonus increased by 25.1% for the Group Chief Executive in 2014 compared to the previous financial year (2013: £765,657; 2014: £957,998). The equivalent average percentage change for the senior management population as a whole was a 17.1% increase on 2013. The salary increase for the Group Chief Executive in 2014 compared to the previous financial year was 3.0% (2013: £470,200; 2014: £484,306). Non-pension benefits decreased by 0.9% for the Group Chief Executive in 2014 compared to 2013 (2013: £17,364; 2014: £17,214). Bonus payable increased by 36.1% for the Group Chief Executive in 2014 compared to 2013 (2013: £278,093; 2014: £456,478).

Relative importance of pay spend

The table below shows the total expenditure in relation to staff and employee costs, distributions to shareholders and the Group's corporation tax paid in 2013 and 2014.

	2014 £m	2013 £m
Staff and employee costs	**234.9**	242.3
Distributions to shareholders	**45.2**	24.0
Corporation tax paid	**19.0***	22.5

* The decrease in corporation taxes paid in 2014 compared 2013 to 2014 is a timing issue, as US quarterly estimates of tax due in 2013 were overestimated, resulting in a £5.6m overpayment. The 2013 overpayment has been offset against 2014 US tax payments.

CIP and BIP awards granted and vested during the year

Awards or grants were made under the CIP and BIP Schemes as follows:

- BIP: Awards consisting of shares were granted to both Executive Directors, equivalent in value to 175% of their base salaries on 4 April 2014, and will vest after three years. Details of the awards are set out below. Awards are subject to continued employment and the achievement of the performance conditions specified on page 62.
- CIP: Awards consisting of shares were granted to both Executive Directors, equivalent in value to 13% of S.C. Harris' base salary and 23% of D.F. Landless' base salary on 30 May 2014, and will vest after three years. Details of the awards are set out below. The maximum take up is 40% of the base salary and awards are subject to continued employment and the achievement of the performance conditions specified on page 62.

Directors' interests under the Bodycote Incentive Plan

	Interests as at 1 January 2014	Awarded in year[1]	Vested in year[2]	Lapsed in year	**At 31 December 2014**	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	575,196	–	231,144	3,623	**–**	£2.98	£7.62	3 March 2014
	–	109,299	–	**–**	**449,728**	£7.53	–	March 2017
D.F. Landless	374,619	–	154,750	2,426	**–**	£2.98	£7.62	3 March 2014
	–	69,805	–	**–**	**287,248**	£7.53	–	March 2017

[1] Mid-market closing price of a share on the day before grant was £8.16. The face value of the award to S.C. Harris was £822,836. The face value of the award to D.F. Landless was £525,513.

[2] Subject to satisfaction of the relevant performance conditions (details of which are set on page 62). The awards that vested during the year did so at 98.5% of the maximum.

Directors' interests under the Bodycote Co-investment Plan

	Interests as at 1 January 2014	Awarded in year[1]	Vested in year[2]	Lapsed in year	**At 31 December 2014**	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	14,011	–	10,608	**–**	**–**	£3.75	£7.13	23 May 2014
	–	8,047	–	**–**	**11,450**	£7.46	–	May 2017
D.F. Landless	16,747	–	2,783	**–**	**–**	£3.75	£7.13	23 May 2014
	–	9,335	–	**–**	**23,299**	£7.46	–	May 2017

[1] Mid-market closing price of a share on the day before grant was £7.37. The face value of the award to S.C. Harris was £60,031. The face value of the award to D.F. Landless was £69,639.

[2] Subject to satisfaction of the relevant performance conditions (details of which are set on page 62). The awards that vested during the year did so in full.

E. Lindqvist
Chairman of the Remuneration Committee
26 February 2015

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, the Board report on remuneration 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). 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

By order of the Board:

S.C. Harris
Group Chief Executive
26 February 2015

D.F. Landless
Group Finance Director
26 February 2015

Independent auditor's report

To the Members of Bodycote plc

Opinion on financial statements of Bodycote plc

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 2014 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; 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.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Statement of Group and Company Accounting Policies and the related notes 1 to 29 and 1 to 11 for the Group and Company financial statements respectively. 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 (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 23 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Impairment of non-current assets Given the Group's significant asset base and the continued macro-economic uncertainties in certain global territories, this risk concerns the carrying value of intangible (including goodwill) and tangible fixed assets. The Group's assessment of the carrying value of intangible and tangible fixed assets of £172.1m and £434.6m respectively requires significant judgement, as described in note 10 and the key sources of estimation uncertainty within the accounting policies. Particular attention is given to cash flow, growth rates, discount rates and sensitivity assumptions.	We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we: ■ considered the appropriateness of the growth rate assumptions by comparing them to historical trading performance for both revenue and operating profit across the Group's geographical and market segments; ■ assessed the appropriateness of the assumptions concerning inputs to the discount rate against latest market expectations. In performing our procedures, we used our internal valuation specialists and third party evidence to assess the appropriateness of the discount rate applied; and ■ considered management's assertions of the future utilisation of assets supporting their carrying value by reviewing the strategic plan for the business by cash generating unit.
Environmental provisions Given the nature of the Group's operations, a risk arises in connection with the appropriateness and completeness of the £14.0m (2013: £13.8m) environmental provisions, in particular, their judgemental nature relative to the likely period of utilisation as described in the critical judgements within the accounting policies. The risk arises predominantly within the US component.	We evaluated the environmental provisions by comparing the basis for the recognition of provisions against the regulatory and legal requirements, assessing the value of the provision recognised and challenging the status and utilisation of provisions. As part of our audit procedures we reviewed third party evidence and assumptions detailing the assessment of environmental liabilities for the Group together with correspondence from the Group's internal environmental remediation team. As part of these procedures we also challenged the qualifications of management's experts. Where applicable, we also verified environmental provisions to regulatory and legal correspondence.

Risk	How the scope of our audit responded to the risk
Taxation The tax risk concerns the judgements and estimates applied in the determination of tax balances, in particular in relation to the recognition of deferred tax assets for tax losses across the Group as disclosed in note 19 and provisions for liabilities attributed to specific uncertain tax positions linked to the Group's complex corporate structures.	In conjunction with our taxation audit specialists, we have assessed and challenged the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable, as opposed to accounting, profits to support the recognition of deferred tax assets by comparing to forecast information and historical trends in loss utilisation. We have also assessed the assumptions and judgements concerning the adequacy of tax provisions for uncertain tax positions by viewing the latest correspondence from the various tax authorities and drawing on the experience of our tax specialists in respect of similar situations.
Pensions This risk concerns the appropriateness of actuarial assumptions in calculating the Group's IAS 19 gross liability of £129.5m (2013: £108.7m). The valuation of the Group's IAS 19 deficit involves significant judgement as described in note 29 and in the key sources of estimation uncertainty in the accounting policies, in particular in relation to the discount rate, inflation and mortality assumptions.	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 assess the appropriateness of the assumptions in the context of the Group's own position.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 48.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Revenue

Full audit scope 86%
Review at group level 14%

Profit before tax

Full audit scope 93%
Review at group level 7%

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.

We determined materiality for the Group to be £4.9m (2013: £6.8m), which is below 5% (2013: 7.5%) of pre-tax profit, and below 1% (2013: 1%) of equity. We have reduced the percentage applied to pre-tax profit to align more closely with comparable companies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000 (2013: £145,000), 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.

In 2014 we have continued to have direct Group oversight, leadership and control over the components in the Shared Service Centre (SSC) in Prague and the USA. We have further redesigned our audit work and the shape of the audit teams as more components have transitioned into the SSC. Consistent with the prior year and as agreed with the Audit Committee, the smaller components in territories such as China, Singapore and Mexico have remained in scope and we have maintained the scoping levels in territories such as Brazil, the Netherlands, Luxembourg, Germany and Turkey which were increased in 2013.

As a consequence of the audit scope determined, we achieved coverage of approximately 86% of revenue, 97% of profit before tax and 88% of net assets. Our audit work at each location was executed at levels of materiality applicable to each individual entity which was lower than group materiality. Component materiality ranged from £0.5m to £2.9m.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations included as full scope for the Group audit at least once every three years and the most significant of them at least once a year. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, attend close meetings by conference call and video conferencing and review documentation of the findings from their work.

Opinion 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; and
- 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.

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

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.

Nicola Mitchell (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester United Kingdom
26 February 2015

Consolidated income statement
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Revenue	1	**609.1**	619.6
Cost of sales and overheads		**(501.9)**	(516.7)
Operating profit prior to exceptional items		**107.2**	102.9
Acquisition costs		**(0.2)**	–
Reorganisation costs		**–**	(0.8)
Operating profit	3	**107.0**	102.1
Investment revenue	5	**0.1**	0.1
Finance costs	6	**(3.4)**	(3.8)
Profit before taxation		**103.7**	98.4
Taxation	7	**(24.4)**	(25.3)
Profit for the year		**79.3**	73.1
Attributable to:			
Equity holders of the parent		**79.4**	73.0
Non-controlling interests		**(0.1)**	0.1
		79.3	73.1

	Note	2014	2013
Earnings per share	9		
		Pence	Pence
Basic		**41.7**	38.5
Diluted		**41.7**	38.5

All activities have arisen from continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	**79.3**	73.1
Items that will not be reclassified to profit or loss:		
Actuarial gains /(losses) on defined benefit pension schemes	**0.5**	(0.3)
Tax on items not reclassified	**1.0**	(0.1)
Total items that will not be reclassified to profit or loss	**1.5**	(0.4)
Items that may be reclassified subsequently to profit or loss:		
Exchange losses on translation of foreign operations	**(7.0)**	(3.1)
Movements on hedges of net investments	**–**	(1.3)
Total items that may be reclassified subsequently to profit or loss	**(7.0)**	(4.4)
Other comprehensive expense for the year	**(5.5)**	(4.8)
Total comprehensive income for the year	**73.8**	68.3
Attributable to:		
Equity holders of the parent	**73.9**	68.3
Non-controlling interests	**(0.1)**	–
	73.8	68.3

Consolidated balance sheet
At 31 December 2014

	Note	2014 £m	2013 £m
Non-current assets			
Goodwill	10	**138.4**	135.7
Other intangible assets	11	**33.7**	32.2
Property, plant and equipment	12	**434.6**	444.6
Other investments	13	**–**	1.7
Deferred tax assets	19	**27.2**	29.4
Trade and other receivables	15	**1.6**	1.7
		635.5	645.3
Current assets			
Inventories	14	**20.9**	18.7
Current tax assets		**20.3**	16.5
Trade and other receivables	15	**109.0**	108.9
Cash and bank balances	15	**38.5**	16.9
Assets held for sale	16	**0.9**	2.3
		189.6	163.3
Total assets		**825.1**	808.6
Current liabilities			
Trade and other payables	21	**119.3**	132.1
Current tax liabilities		**33.4**	27.1
Obligations under finance leases	20	**0.1**	0.1
Borrowings	17	**2.5**	1.6
Provisions	22	**6.9**	6.9
		162.2	167.8
Net current assets / (liabilities)		**27.4**	(4.5)
Non-current liabilities			
Retirement benefit obligations	29	**17.0**	18.5
Deferred tax liabilities	19	**60.7**	61.6
Obligations under finance leases	20	**0.2**	0.2
Provisions	22	**10.4**	9.5
Other payables	21	**3.7**	3.6
		92.0	93.4
Total liabilities		**254.2**	261.2
Net assets		**570.9**	547.4
Equity			
Share capital	23	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(7.1)**	(5.5)
Other reserves		**136.6**	140.1
Hedging and translation reserves		**(3.0)**	4.7
Retained earnings		**233.7**	197.3
Equity attributable to equity holders of the parent		**570.4**	546.8
Non-controlling interests		**0.5**	0.6
Total equity		**570.9**	547.4

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 26 February 2015.

They were signed on its behalf by:

S.C. Harris
Director

D.F. Landless
Director

Consolidated cash flow statement

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Net cash from operating activities	25	**131.6**	139.4
Investing activities			
Purchases of property, plant and equipment		**(55.3)**	(56.2)
Proceeds on disposal of property, plant and equipment and intangible assets		**5.6**	1.9
Purchases of intangible fixed assets		**(4.1)**	(3.0)
Acquisition of businesses		**(2.7)**	–
Purchase of sundry investments		**(0.1)**	(0.9)
Disposal of investments		**1.8**	–
Net cash used in investing activities		**(54.8)**	(58.2)
Financing activities			
Interest received		**0.1**	0.1
Interest paid		**(2.8)**	(3.4)
Dividends paid		**(45.2)**	(24.0)
Repayments of bank loans		**(0.5)**	(36.6)
Payments of obligations under finance leases		**(0.1)**	(0.1)
Own shares purchased/settlement of share options		**(7.0)**	(3.5)
Net cash used in financing activities		**(55.5)**	(67.5)
Net increase in cash and cash equivalents		**21.3**	13.7
Cash and cash equivalents at beginning of year		**15.3**	1.6
Effect of foreign exchange rate changes		**(0.6)**	–
Cash and cash equivalents at end of year	25	**36.0**	15.3

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2013	33.1	177.1	(11.3)	141.6	10.5	151.7	502.7	1.4	504.1
Net profit for the year	–	–	–	–	–	73.0	73.0	0.1	73.1
Exchange differences on translation of overseas operations	–	–	–	–	(3.0)	–	(3.0)	(0.1)	(3.1)
Movements on hedges of net investments	–	–	–	–	(1.3)	–	(1.3)	–	(1.3)
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Total comprehensive income for the year	–	–	–	–	(4.3)	72.6	68.3	–	68.3
Acquired in the year/settlement of share options	–	–	5.8	(5.1)	–	(4.2)	(3.5)	–	(3.5)
Share-based payments	–	–	–	3.6	–	–	3.6	–	3.6
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(24.0)	(24.0)	–	(24.0)
Disposed with subsidiary	–	–	–	–	(1.5)	1.5	–	–	–
Purchase of non-controlling interests	–	–	–	–	–	–	–	(0.8)	(0.8)
31 December 2013	**33.1**	**177.1**	**(5.5)**	**140.1**	**4.7**	**197.3**	**546.8**	**0.6**	**547.4**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**79.4**	**79.4**	**(0.1)**	**79.3**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**(7.0)**	**–**	**(7.0)**	**–**	**(7.0)**
Actuarial gains on defined benefit pension schemes net of deferred tax	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**	**–**	**1.5**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(7.0)**	**80.9**	**73.9**	**(0.1)**	**73.8**
Acquired in the year/settlement of share options	**–**	**–**	**(1.6)**	**(5.4)**	**–**	**–**	**(7.0)**	**–**	**(7.0)**
Share-based payments	**–**	**–**	**–**	**1.9**	**–**	**–**	**1.9**	**–**	**1.9**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(45.2)**	**(45.2)**	**–**	**(45.2)**
Disposal/dissolution of subsidiary	**–**	**–**	**–**	**–**	**(0.7)**	**0.7**	**–**	**–**	**–**
31 December 2014	**33.1**	**177.1**	**(7.1)**	**136.6**	**(3.0)**	**233.7**	**570.4**	**0.5**	**570.9**

Included in other reserves is the capital redemption reserve of £129.8m (2013: £129.8m) and the share-based payments reserve of £5.9m (2013: £9.2m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2014 1,212,547 (2013: 2,035,618) 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 27).

Group accounting policies
Year ended 31 December 2014

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 Finance Director's report on page 23.

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 into 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.

Critical judgements in applying the Group's accounting policies
In the process of applying the Group's accounting policies, which are described above, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below) and have been identified as being particularly complex or involve subjective assessments.

Taxation
The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

Provisions for environmental liabilities

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. The provision is reviewed annually. Due to the significant uncertainty associated with the future level of such environmental liabilities, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred. The directors take account of the advice of experts in quantifying the expected costs of future remediation.

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.

Impairment of goodwill and fixed assets

Determining whether goodwill and fixed assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £138.4m (2013: £135.7m). Details of the accounting policies applied in respect of impairment are set out on pages 76 and 79.

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, which are set out in note 29. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 77.

Goodwill on acquisition

Accounting for goodwill arising in a business combination requires an assessment of the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate at the acquisition date. Details of the accounting policies applied in respect of goodwill arising on acquisition are set out on page 76.

In establishing the fair value for intangible assets recognised on acquisition and their estimated useful lives, the Group has to make various subjective assessments of projected data and takes account of the individual circumstances of the entity acquired. This includes consideration of trading data such as historical sales and profitability levels, assessment of the discount rate used to calculate present value, the likelihood of loss of customers, the ability of former owners to compete, together with the estimated impact of competition.

Provisions for restructuring costs

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily required by the restructuring and not associated with the ongoing activities of the Group. Uncertainty arises in the estimation of site clean up and dilapidation costs. The Group has to make a subjective assessment of the cost involved based on previous experience, there can be no guarantee that the assumptions used to estimate the provision will result in a wholly accurate prediction of the actual costs that may be incurred.

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.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group'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 Group's net investment outstanding in respect of the leases.

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 pages 80 and 81); 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.

Exceptional items

The Group considers exceptional items to be those which derive from events or transactions which are considered significant for separate disclosure by virtue of their size or incidence in order for the user to obtain a proper understanding of the Group's financial performance. These items include, but are not limited to, impairment charges and other one off items which meet this definition.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognized 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 retirement 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 recognized 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 6).

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. 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.

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.

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 than12 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 the 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 Payment.

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.

General information

Bodycote plc is a company incorporated in the United Kingdom under the Companies Acts 1948 to 1980. 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.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in the foreign currencies accounting policy on page 77.

Adoption of new and revised standards

Standards affecting the reported results or the financial position

No standards have been adopted that have affected the reported results or the financial position.

Standards not affecting the reported results nor the financial position

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 (as revised in 2012) Consolidated financial statements, IFRS 11 Joint Arrangements' IFRS 12 (as revised in 2012) Disclosure of Interests in Other Entities, IAS 27 (as revised in 2012) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first time application of the standards and further amendments were issued on IFRS 10, IFRS 12 and IAS 27 to set out financial reporting requirements for investment entities.

In the current year, the Group has applied for the first time IFRS 10 (as revised in 2012), IFRS 11, IFRS 12 (as revised in 2012), and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11, and IFRS 12, regarding the transitional guidance and investment entities. IAS 27 (as revised in 2012) has also been applied and it deals only with separate financial statements.

In addition to the above, the following amendments have been adopted in the year:

- IAS 32 Offsetting Financial Assets and Financial Liabilities
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The above new and revised standards have not had any significant 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 adopted by the EU):

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IFRS 1	First time adoption of international financial reporting standards
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 19	Defined benefit plans: employee contributions
Annual improvements to IFRSs	2011-2013 cycle (July 2014)
Annual improvements to IFRSs	2012-2014 cycle (Sep 2014)

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 as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments; and
- IFRS 15 may have an impact on revenue disclosures.

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

Notes to the consolidated financial statements

Year ended 31 December 2014

1. Revenue

	2014 £m	2013 £m
Heat treatment and metal joining, hot isostatic pressing and surface technology services	**609.1**	619.6
Other operating income (see note 3)	**5.4**	3.5
Investment revenue (see note 5)	**0.1**	0.1
Total Revenue (as defined in IAS 18 Revenue)	**614.6**	623.2

2. Business and geographical segments

The Group has 188 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, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

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

Group	**ADE 2014 £m**	**AGI 2014 £m**	**Central costs and eliminations 2014 £m**	**Consolidated 2014 £m**
Revenue				
Total revenue	**263.0**	**346.1**	**–**	**609.1**
Result				
Headline operating profit prior to share-based payments and unallocated central costs	**70.7**	**55.1**	**–**	**125.8**
Share-based payments (including social charges)	**(0.1)**	**(1.0)**	**(1.1)**	**(2.2)**
Unallocated central costs	**–**	**–**	**(12.5)**	**(12.5)**
Headline operating profit / (loss)	**70.6**	**54.1**	**(13.6)**	**111.1**
Amortisation of acquired intangible fixed assets	**(1.3)**	**(2.6)**	**–**	**(3.9)**
Operating profit / (loss) prior to exceptional items	**69.3**	**51.5**	**(13.6)**	**107.2**
Acquisition costs	**–**	**(0.2)**	**–**	**(0.2)**
Segment result	**69.3**	**51.3**	**(13.6)**	**107.0**
Investment revenue				**0.1**
Finance costs				**(3.4)**
Profit before taxation				**103.7**
Taxation				**(24.4)**
Profit for the year				**79.3**

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total ADE 2014 £m
Revenue				
Total revenue	**129.7**	**130.8**	**2.5**	**263.0**
Result				
Headline operating profit prior to share-based payments	**30.4**	**39.8**	**0.5**	**70.7**
Share-based payments (including social charges)	**(0.1)**	**–**	**–**	**(0.1)**
Headline operating profit	**30.3**	**39.8**	**0.5**	**70.6**
Amortisation of acquired intangible fixed assets	**(0.3)**	**(1.0)**	**–**	**(1.3)**
Segment result	**30.0**	**38.8**	**0.5**	**69.3**

Automotive & General Industrial	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total AGI 2014 £m
Revenue				
Total revenue	**220.1**	**84.6**	**41.4**	**346.1**
Result				
Headline operating profit prior to share-based payments	**37.6**	**15.5**	**2.0**	**55.1**
Share-based payments (including social charges)	**(1.0)**	**–**	**–**	**(1.0)**
Headline operating profit	**36.6**	**15.5**	**2.0**	**54.1**
Amortisation of acquired intangible fixed assets	**(0.2)**	**(2.2)**	**(0.2)**	**(2.6)**
Operating profit prior to exceptional items	**36.4**	**13.3**	**1.8**	**51.5**
Acquisition costs	**(0.2)**	**–**	**–**	**(0.2)**
Segment result	**36.2**	**13.3**	**1.8**	**51.3**

Group	ADE 2013 £m	AGI 2013 £m	Central costs and eliminations 2013 £m	Consolidated 2013 £m
Revenue				
Total revenue	261.8	357.8	–	619.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	71.9	54.2	–	126.1
Share-based payments (including social charges)	(1.2)	(1.5)	(1.7)	(4.4)
Unallocated central costs	–	–	(14.3)	(14.3)
Headline operating profit / (loss)	70.7	52.7	(16.0)	107.4
Amortisation of acquired intangible fixed assets	(1.3)	(3.2)	–	(4.5)
Operating profit / (loss) prior to exceptional items	69.4	49.5	(16.0)	102.9
Reorganisation costs	–	–	(0.8)	(0.8)
Segment result	69.4	49.5	(16.8)	102.1
Investment revenue				0.1
Finance costs				(3.8)
Profit before taxation				98.4
Taxation				(25.3)
Profit for the year				73.1

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total ADE 2013 £m
Revenue				
Total revenue	121.0	137.9	2.9	261.8
Result				
Headline operating profit prior to share-based payments	32.1	39.6	0.2	71.9
Share-based payments (including social charges)	(0.3)	(0.9)	–	(1.2)
Headline operating profit	31.8	38.7	0.2	70.7
Amortisation of acquired intangible fixed assets	(0.3)	(1.0)	–	(1.3)
Segment result	31.5	37.7	0.2	69.4

Automotive & General Industrial	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total AGI 2013 £m
Revenue				
Total revenue	226.9	85.9	45.0	357.8
Result				
Headline operating profit prior to share-based payments	36.1	15.6	2.5	54.2
Share-based payments (including social charges)	(1.0)	(0.5)	–	(1.5)
Headline operating profit	35.1	15.1	2.5	52.7
Amortisation of acquired intangible fixed assets	(0.2)	(2.8)	(0.2)	(3.2)
Segment result	34.9	12.3	2.3	49.5

Other information

Group	ADE 2014 £m	AGI 2014 £m	Central costs and eliminations 2014 £m	Consolidated 2014 £m
Gross capital additions	**18.9**	**36.2**	**4.3**	**59.4**
Depreciation and amortisation	**20.1**	**34.0**	**1.0**	**55.1**
Balance sheet				
Assets:				
Segment assets	**308.1**	**434.7**	**82.3**	**825.1**
Liabilities:				
Segment liabilities	**(68.2)**	**(122.8)**	**(63.2)**	**(254.2)**
	239.9	**311.9**	**19.1**	**570.9**
Allocation of head office net assets	**8.3**	**10.8**	**(19.1)**	**–**
Adjusted segment net assets	**248.2**	**322.7**	**–**	**570.9**

Strategic report

Governance

Financial statements

Additional information

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	**Western Europe 2014 £m**	**North America 2014 £m**	**Emerging markets 2014 £m**	**Total ADE 2014 £m**
Gross capital additions	**9.2**	**9.5**	**0.2**	**18.9**
Depreciation and amortisation	**9.5**	**10.3**	**0.3**	**20.1**
Balance sheet				
Assets:				
Segment assets	**140.3**	**164.7**	**3.1**	**308.1**
Liabilities:				
Segment liabilities	**(35.5)**	**(31.0)**	**(1.7)**	**(68.2)**
Segment net assets	**104.8**	**133.7**	**1.4**	**239.9**

Automotive & General Industrial	**Western Europe 2014 £m**	**North America 2014 £m**	**Emerging markets 2014 £m**	**Total AGI 2014 £m**
Gross capital additions	**18.8**	**6.9**	**10.5**	**36.2**
Depreciation and amortisation	**21.6**	**7.9**	**4.5**	**34.0**
Balance sheet				
Assets:				
Segment assets	**248.2**	**118.9**	**67.6**	**434.7**
Liabilities:				
Segment liabilities	**(93.1)**	**(15.6)**	**(14.1)**	**(122.8)**
Segment net assets	**155.1**	**103.3**	**53.5**	**311.9**

Other information

Group	ADE 2013 £m	AGI 2013 £m	Central costs and eliminations 2013 £m	Consolidated 2013 £m
Gross capital additions	21.1	35.4	2.7	59.2
Depreciation and amortisation	20.6	36.1	0.7	57.4
Balance sheet				
Assets:				
Segment assets	312.5	440.2	54.2	806.9
Other investments	–	–	1.7	1.7
Consolidated total assets	312.5	440.2	55.9	808.6
Liabilities:				
Segment liabilities	(63.6)	(130.2)	(67.4)	(261.2)
	248.9	310.0	(11.5)	547.4
Allocation of head office net liabilities	(5.1)	(6.4)	11.5	–
Adjusted segment net assets	243.8	303.6	–	547.4

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total ADE 2013 £m
Gross capital additions	7.4	13.4	0.3	21.1
Depreciation and amortisation	10.0	10.3	0.3	20.6
Balance sheet				
Assets:				
Segment assets	148.5	161.2	2.8	312.5
Liabilities:				
Segment liabilities	(34.7)	(27.2)	(1.7)	(63.6)
Segment net assets	113.8	134.0	1.1	248.9

Automotive & General Industrial	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total AGI 2013 £m
Gross capital additions	17.3	9.9	8.2	35.4
Depreciation and amortisation	22.8	8.1	5.2	36.1
Balance sheet				
Assets:				
Segment assets	263.2	114.1	62.9	440.2
Liabilities:				
Segment liabilities	(99.1)	(18.6)	(12.5)	(130.2)
Segment net assets	164.1	95.5	50.4	310.0

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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
USA	**206.7**	216.1	**244.9**	237.4
France	**91.4**	93.8	**63.1**	68.5
UK	**59.5**	64.2	**71.2**	71.5
Germany	**65.5**	63.9	**59.9**	65.1
Sweden	**51.4**	42.0	**37.6**	43.8
Netherlands	**26.1**	26.7	**22.9**	20.2
Others	**108.5**	112.9	**107.1**	107.7
	609.1	619.6	**606.7**	614.2

3. Operating profit

	2014 £m	2013 £m
Revenue	**609.1**	619.6
Cost of sales	**(382.0)**	(386.2)
Gross profit	**227.1**	233.4
Other operating income	**5.4**	3.5
Distribution costs	**(17.9)**	(18.0)
Administration expenses*	**(102.1)**	(109.6)
Other operating expenses	**(1.4)**	(1.9)
Headline operating profit	**111.1**	107.4
Amortisation of acquired intangible fixed assets*	**(3.9)**	(4.5)
Operating profit prior to exceptional items	**107.2**	102.9
Exceptional items*	**(0.2)**	(0.8)
Operating profit	**107.0**	102.1

*Administration expenses total £106.2m (2013: £114.9m).

Exceptional items comprise:

	2014 £m	2013 £m
Acquisition costs	**0.2**	–
Reorganisation costs	**–**	0.8
	0.2	0.8

Further details of these items are included in the Finance Director's report on page 20.

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

	2014 £m	2013 £m
Net foreign exchange losses/(gains)	**0.1**	(0.1)
Inventory expensed	**51.9**	55.4
Depreciation of property, plant and equipment	**50.3**	51.9
Amortisation of intangible fixed assets	**4.8**	5.5
Gain on disposal of property, plant and equipment	**(1.4)**	(0.1)
Staff costs (see note 4)	**234.9**	242.3
Impairment loss on trade receivables	**0.1**	0.5
Impairment of fixed assets	**2.7**	5.1

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

	2014 £m	2013 £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
Taxation compliance 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 £5,750 (2013: £5,580) 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 because the consolidated financial statements are required to disclose such fees on a consolidated basis.

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.

4. Staff costs

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

	2014 Number	2013 Number
ADE:		
Western Europe	**976**	1,003
North America	**943**	993
Emerging markets	**24**	21
AGI:		
Western Europe	**1,963**	1,933
North America	**927**	895
Emerging markets	**781**	775
Shared services	**193**	157
Head office	**29**	31
	5,836	5,808

	2014 £m	2013 £m
Their aggregate remuneration comprised:		
Wages and salaries	**198.5**	205.0
Social security costs	**29.6**	30.2
Other pension costs	**6.8**	7.1
	234.9	242.3

Included in wages and salaries are share-based payments of £1.9m (2013: £3.6m).

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 51 to 65 and form part of these financial statements.

5. Investment revenue

	2014 £m	2013 £m
Interest on bank deposits	**0.1**	–
Other interest receivable	**–**	0.1
Total interest and investment revenue	**0.1**	0.1

All investment revenue relates to bank balances and other receivables.

6. Finance costs

	2014 £m	2013 £m
Interest on bank overdrafts and loans*	**0.3**	0.6
Total interest expense	**0.3**	0.6
Net interest on the defined benefit pension liability	**0.6**	0.6
Other finance charges*	**2.5**	2.6
Total finance costs	**3.4**	3.8

* Amounts arising on financial liabilities measured at amortised cost.

7. Taxation

	2014 £m	2013 £m
Current taxation – charge for the year	**30.4**	19.7
Current taxation – adjustments in respect of previous years	**(7.1)**	(0.2)
Deferred tax (see note 19)	**1.1**	5.8
	24.4	25.3

UK corporation tax is calculated at 21.50% (2013: 23.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2014 £m	2013 £m
Profit before taxation	**103.7**	98.4
Tax at the UK corporation tax rate of 21.50% (2013: 23.25%)	**22.3**	22.9
Tax effect of income/expenses that are not deductible in determining taxable profit	**(2.1)**	(6.1)
Deferred tax assets recognised	**0.9**	0.9
Tax effect of other adjustments in respect of previous years:		
Current tax	**(7.1)**	(0.1)
Deferred tax	**–**	(0.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10.4**	7.9
Tax expense for the year	**24.4**	25.3

Tax on items taken directly to equity is a credit of £1.0m (2013: charge of £0.4m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £0.1m (2013: £0.2m).

8. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2013 of 9.1p (2012: 8.3p) per share	**17.4**	15.7
Special dividend for the year ended 31 December 2013 of 10.0p (2012: nil) per share	**19.1**	–
Interim dividend for the year ended 31 December 2014 of 4.6p (2013: 4.4p) per share	**8.7**	8.3
	45.2	24.0
Proposed final dividend for the year ended 31 December 2014 of 9.8p (2013: 9.1p) per share	**18.7**	17.4
Proposed special dividend for the year ended 31 December 2014 of 20.0p (2013: 10.0p) per share	**38.1**	19.1

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.

9. Earnings per share

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

	2014 £m	2013 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**79.4**	73.0
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**190,243,625**	189,406,006
Effect of dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**190,243,625**	189,406,006
	Pence	Pence
Earnings per share:		
Basic	**41.7**	38.5
Diluted	**41.7**	38.5
	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	**79.4**	73.0
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**3.8**	4.4
Acquisition costs (net of tax)	**0.2**	–
Reorganisation costs (net of tax)	**–**	0.6
Headline earnings	**83.4**	78.0
	Pence	Pence
Earnings per share from headline earnings:		
Basic	**43.8**	41.2
Diluted	**43.8**	41.2

10. Goodwill

	2014 £m	2013 £m
Cost		
At 1 January	**205.1**	202.9
Exchange differences	**0.9**	(2.3)
Recognised on acquisition of businesses (see note 24)	**1.4**	4.5
At 31 December	**207.4**	205.1
Accumulated impairment		
At 1 January	**69.4**	71.1
Exchange differences	**(0.4)**	(1.7)
At 31 December	**69.0**	69.4
Carrying amount	**138.4**	135.7

10. Goodwill (continued)

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 operating segments as follows:

	2014 £m	2013 £m
ADE:		
Western Europe	**26.5**	26.7
North America	**45.4**	44.7
AGI:		
Western Europe	**18.6**	17.6
North America	**42.1**	40.5
Emerging markets	**5.8**	6.2
	138.4	135.7

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, growth rates and expected changes to selling prices and direct costs 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 12.3% (2013: 12.3%) and 14.3% (2013: 14.3%). The recoverable amount is the sum of the discounted cash flows as forecasted for the coming five years, together with a further estimate of cash flows in perpetuity.

The forecast sales reflect management's expectation of how sales will develop at this point in the economic cycle. 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. Cash flows after five years are based on an estimated growth rate of 3.0% (2013: 3.1%), being the historical weighted average growth in GDP in the markets that the Group operates in. Growth rates by cash generating unit range from 2.75% to 6.0%. This rate does not exceed the average long-term growth rate for the relevant markets.

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	**42.8**	**3.2**	**12.3**
North America AGI Heat Treatment	**42.1**	**3.2**	**12.3**

The Group has conducted sensitivity analyses on the key assumptions applied to the value in use calculations for each cash generating unit. A decline in sales of 15.3% per annum in perpetuity would result in the recoverable amount of goodwill for the Group being reduced to its carrying value. The directors do not believe such a decline to be likely.

Declines in long-term growth rates of 46.3 percentage points and 4.5 percentage points for North America ADE Heat Treatment and North America AGI Heat Treatment cash generating units, respectively, would result in the recoverable amount of goodwill for these cash generating units being reduced to their carrying values. The directors do not believe such declines to be likely.

The Board has concluded that no impairment charge is required in 2014.

11. Other intangible assets

	Software £m	Non-compete agreements £m	Customer relationships £m	Total £m
Cost				
At 1 January 2013	17.7	2.9	33.7	54.3
Exchange differences	–	–	(1.1)	(1.1)
Additions	3.0	–	–	3.0
Disposals	(0.5)	–	–	(0.5)
At 1 January 2014	**20.2**	**2.9**	**32.6**	**55.7**
Exchange differences	**(0.3)**	**–**	**1.4**	**1.1**
Additions	**4.1**	**–**	**–**	**4.1**
Acquired on acquisition of businesses (see note 24)	**–**	**–**	**1.2**	**1.2**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December 2104	**23.8**	**2.9**	**35.2**	**61.9**
Amortisation				
At 1 January 2013	11.9	0.1	7.3	19.3
Exchange differences	–	–	(0.8)	(0.8)
Charge for the year	1.0	0.7	3.8	5.5
Disposals	(0.5)	–	–	(0.5)
At 1 January 2014	**12.4**	**0.8**	**10.3**	**23.5**
Exchange differences	**(0.2)**	**–**	**0.3**	**0.1**
Charge for the year	**0.9**	**0.7**	**3.2**	**4.8**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December 2014	**12.9**	**1.5**	**13.8**	**28.2**
Carrying amount				
At 31 December 2014	**10.9**	**1.4**	**21.4**	**33.7**
At 31 December 2013	7.8	2.1	22.3	32.2

The amortisation periods for intangible assets are:

	Years
Software	3 to 5
Non-compete agreements	4 to 5
Customer relationships	10 to 15

Intangible assets are amortised on a straight-line basis and the amortisation is recognised within administration expenses.

12. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 January 2013	210.0	1.8	16.0	725.2	32.1	37.5	1,022.6
Additions	0.8	0.8	0.2	21.0	1.2	32.2	56.2
Acquisition of businesses	–	–	–	(0.5)	(0.1)	(0.3)	(0.9)
Exchange differences	1.8	(0.1)	(0.5)	(1.1)	0.2	(0.4)	(0.1)
Transfer to assets held for sale	(0.7)	–	–	–	(0.4)	–	(1.1)
Recategorisation	11.1	0.2	(1.4)	25.2	0.5	(35.6)	–
Disposals	(2.4)	–	(0.2)	(18.8)	(3.9)	–	(25.3)
At 1 January 2014	**220.6**	**2.7**	**14.1**	**751.0**	**29.6**	**33.4**	**1,051.4**
Additions	**1.0**	**0.3**	**0.2**	**16.6**	**1.0**	**36.2**	**55.3**
Acquisition of businesses	**–**	**–**	**–**	**0.9**	**–**	**0.2**	**1.1**
Exchange differences	**(8.4)**	**–**	**(0.3)**	**(21.2)**	**(1.2)**	**(0.3)**	**(31.4)**
Recategorisation	**2.1**	**4.5**	**(4.1)**	**24.2**	**0.5**	**(27.2)**	**–**
Disposals	**(1.2)**	**–**	**(0.2)**	**(16.6)**	**(0.8)**	**(0.3)**	**(19.1)**
At 31 December 2014	**214.1**	**7.5**	**9.7**	**754.9**	**29.1**	**42.0**	**1,057.3**
Accumulated depreciation and impairment							
At 1 January 2013	75.7	1.1	9.6	461.4	26.1	–	573.9
Charge for the year	5.8	0.4	0.7	43.0	2.0	–	51.9
Impairment losses incurred	0.7	–	–	3.0	0.1	1.3	5.1
Exchange differences	0.8	–	(0.4)	(0.4)	0.3	–	0.3
Transfer to assets held for sale	(0.5)	–	–	–	(0.4)	–	(0.9)
Recategorisation	5.4	–	(1.9)	(3.5)	–	–	–
Eliminated on disposals	(2.1)	–	(0.1)	(17.4)	(3.9)	–	(23.5)
At 1 January 2014	**85.8**	**1.5**	**7.9**	**486.1**	**24.2**	**1.3**	**606.8**
Charge for the year	**5.8**	**0.4**	**0.6**	**41.8**	**1.7**	**–**	**50.3**
Impairment losses incurred	**0.2**	**–**	**0.1**	**2.2**	**0.2**	**–**	**2.7**
Exchange differences	**(3.7)**	**–**	**(0.2)**	**(15.8)**	**(1.0)**	**–**	**(20.7)**
Recategorisation	**–**	**2.3**	**(2.3)**	**1.3**	**–**	**(1.3)**	**–**
Eliminated on disposals	**(1.1)**	**–**	**–**	**(14.5)**	**(0.8)**	**–**	**(16.4)**
At 31 December 2014	**87.0**	**4.2**	**6.1**	**501.1**	**24.3**	**–**	**622.7**
Carrying amount							
At 31 December 2014	**127.1**	**3.3**	**3.6**	**253.8**	**4.8**	**42.0**	**434.6**
At 31 December 2013	134.8	1.2	6.2	264.9	5.4	32.1	444.6

The carrying amount of leased assets is £nil (2013: £nil).

At 31 December 2014 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.6m (2013: £0.8m).

In addition to the above, property, plant and equipment amounting to £0.9m (2013: £2.3m) has been classified as held for sale and is disclosed within current assets.

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.

13. Subsidiaries and other investments

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on pages 120 to 121. A full list of subsidiaries as at 12 June 2015 will be annexed to the Company's next annual return filed with the Registrar of Companies. No subsidiaries are excluded from the Group consolidation.

	2014 £m	2013 £m
Sundry investments	–	1.7

The sundry investments related to the Bodycote Investment Incentive Plan, as explained in the Board report on remuneration.

All sundry investments have been sold in the year.

14. Inventories

	2014 £m	2013 £m
Raw materials	12.3	12.6
Work-in-progress	8.3	5.7
Finished goods and goods for resale	0.3	0.4
	20.9	18.7

15. Other financial assets

Trade and other receivables

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	92.1	93.4
Other debtors and prepayments*	16.9	15.5
	109.0	108.9
Amounts falling due after more than one year:		
Other debtors and prepayments*	1.6	1.7

* Other financial assets include prepayments of £6.4m (2013: £7.3m), 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 2014 is 60 days (2013: 59 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £5.5m (2013: £6.1m). 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.

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 £17.2m (2013: £16.3m) 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 38 days, with a range from 14 days to 70 days.

Ageing of past due but not impaired receivables:

	2014 £m	2013 £m
31–60 days	**10.4**	10.1
61–90 days	**4.5**	4.1
91–120 days	**1.1**	1.5
Greater than 120 days	**1.2**	0.6
	17.2	16.3

Movement in the allowance for doubtful debts:

	2014 £m	2013 £m
At 1 January	**6.1**	6.2
Impairment losses recognised	**1.3**	2.1
Amounts written off as uncollectable	**(0.5)**	(0.6)
Impairment losses reversed	**(1.2)**	(1.6)
Exchange differences	**(0.2)**	–
At 31 December	**5.5**	6.1

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 £8.3m (2013: £8.9m). 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:

	2014 £m	2013 £m
Less than 3 months	**1.8**	3.2
3–12 months	**2.0**	1.6
Over 12 months	**4.5**	4.1
	8.3	8.9

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:

	2014 £m	2013 £m
Sterling	**25.6**	6.8
US Dollar	**7.6**	3.0
Euro	**2.4**	2.7
Swedish Krona	**0.6**	0.9
Indian Rupee	**0.4**	0.5
Mexican Peso	**0.3**	–
Polish Zloty	**0.2**	0.7
Romanian Leu	**0.2**	0.1
Chinese Yuan	**0.1**	0.8
Czech Republic Koruna	**0.1**	0.4
Canadian Dollar	**0.1**	0.1
Brazilian Real	**0.1**	0.1
Swiss Franc	**0.1**	0.1
Danish Krone	**0.1**	–
Turkish Lira	**–**	0.1
Other	**0.6**	0.6
Total cash and bank balances	**38.5**	16.9

16. Assets held for sale

Assets held for sale comprise the following:

	2014 £m	2013 £m
Property, plant and equipment	**0.9**	2.3

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 2015. The assets held for sale are analysed between operating segments as follows:

	2014 £m	2013 £m
ADE:		
North America	**0.7**	0.6
AGI:		
Western Europe	**0.2**	1.7
	0.9	2.3

17. Borrowings

	2014 £m	2013 £m
Borrowings at amortised cost:		
Bank overdrafts	**2.5**	1.6
The borrowings are repayable as follows:		
On demand or within one year	**2.5**	1.6
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2.5)**	(1.6)
Amount due for settlement after 12 months	**–**	–

17. Borrowings (continued)

Analysis of borrowings by currency:

	Euro £m	US Dollar £m	Other currencies £m	Total £m
At 31 December 2014				
Bank overdrafts	**0.2**	**0.5**	**1.8**	**2.5**
At 31 December 2013				
Bank overdrafts	–	1.1	0.5	1.6

The weighted average interest rates paid were as follows:

	2014 %	2013 %
Bank overdrafts and loans	**3.8**	2.4

Loans and finance leases of £0.2m (2013: £0.3m) were arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair value of the Group's borrowings as follows:

	2014 £m	2013 £m
Bank overdrafts	**2.5**	1.6

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 2014 the Group's principal borrowing facility had drawings of £nil (2013: £nil) under a Revolving Credit Facility of £230m. This unsecured facility commenced on 3 July 2014 and matures on 3 July 2019. The multi currency drawings under this facility carry an interest rate of between 1.05% and 1.90% above LIBOR (the applicable margin at 31 December 2014 was 1.05%).

At 31 December 2014 the Group had available £230.0m (2013: £229.0m) 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 2014 £m**	**Fair value 2014 £m**	Notional amount 2013 £m	Fair value 2013 £m
Current				
Forward foreign exchange contracts	**5.6**	**–**	1.0	–
Total				
Forward foreign exchange contracts	**5.6**	**–**	1.0	–

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 2014 or 2013.

In accordance with IFRS 7 'Improving Disclosures about Financial Instruments', the Group's financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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.

Asset / (liability)	**Euro 2014 £m**	**US Dollar 2014 £m**	**Other currencies 2014 £m**	**Total fair value 2014 £m**
Forward foreign exchange contracts	**(0.4)**	**1.1**	**(0.7)**	**–**
On demand or within one year	**(0.4)**	**1.1**	**(0.7)**	**–**

Asset / (liability)	Euro 2013 £m	US Dollar 2013 £m	Other currencies 2013 £m	Total fair value 2013 £m
Forward foreign exchange contracts	0.6	–	(0.6)	–
On demand or within one year	0.6	–	(0.6)	–

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 2014, the Group had a revolving credit committed borrowing facility of £230.0m (2013: £229.0m) which, together with net cash of £35.7m (2013: net cash of £15.0m), resulted in available funds of £265.7m (2013: £244.0m). 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 2014 the Group's principal committed bank facilities have the following maturity dates:

- £230m Revolving Credit Facility 3 July 2019 (4.5 years)
- $10m Letter of Credit Facility 31 August 2016 (1.7 years)

The facilities were undrawn at the end of the current and previous year.

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2014, the Group had gross cash of £38.5m (2013: £16.9m).

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 2014, 9% of gross debt and 0% of gross cash were at fixed rates (2013: 18% of gross debt, 0% of gross cash). The average tenure of the fixed rate debt was 2.2 years (2013: 3.1 years).

Currency risk

Bodycote has operations in 26 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.

90% of the Group's sales are in currencies other than sterling (EUR 36%, USD 34% and SEK 8%). Cumulatively over the year, sterling rates moved such that the sales for the year were £35.5m lower than if sales had been translated at the rates prevailing in 2013.

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 is Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 90% 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, other than interest, such exposures are immaterial for the Group.

Market risk sensitivity analysis

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 2014, 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 2014 would reduce or increase profit before tax by approximately £0.4m (2013: £0.2m). There is no significant impact on equity.

Currency sensitivity

Taking the 2014 sales by currency, a 10% weakening / strengthening in the 2014 cumulative average rates for all currencies versus sterling would have given rise to a +£61.1m / -£50.0m 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 2014 operating profit mix, a 10% weakening / strengthening in 2014 cumulative average rates for all currencies would have given rise to a +£11.7m / -£9.6m 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 2013	39.9	(5.7)	(5.3)	(6.0)	22.9
Charge/(credit) to income	1.6	2.1	(0.1)	2.6	6.2
Charge to equity	–	–	0.1	0.3	0.4
Acquisition of subsidiaries	1.0	–	–	2.3	3.3
Transfers	(0.6)	–	0.2	0.4	–
Exchange differences	(0.1)	(0.1)	(0.1)	0.1	(0.2)
Effect of change in tax rate:					
Income statement	–	–	–	(0.4)	(0.4)
At 1 January 2014	**41.8**	**(3.7)**	**(5.2)**	**(0.7)**	**32.2**
Charge/(credit) to income	**(0.2)**	**1.2**	**(0.4)**	**0.5**	**1.1**
Credit to equity	**–**	**–**	**(1.0)**	**–**	**(1.0)**
Acquisition of subsidiaries	**0.1**	**–**	**–**	**0.3**	**0.4**
Transfers*	**10.0**	**(0.2)**	**1.1**	**(9.4)**	**1.5**
Exchange differences	**(0.7)**	**0.1**	**0.3**	**(0.4)**	**(0.7)**
Effect of change in tax rate:					
Income statement	**–**	**0.1**	**–**	**(0.1)**	**–**
At 31 December 2014	**51.0**	**(2.5)**	**(5.2)**	**(9.8)**	**33.5**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2014 £m	2013 £m
Deferred tax liabilities	**60.7**	61.6
Deferred tax assets	**(27.2)**	(29.4)
	33.5	32.2

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 £71.7m (2013: £146.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.4m (2013: £12.9m) 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 £61.3m (2013: £133.6m) 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 £0.2m (2013: £0.4m) relating to the temporary differences on unremitted earnings of overseas subsidiaries has not been recognised as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

* Includes movements between current tax and deferred tax.

20. Obligations under finance leases

	Minimum lease payments 2014 £m	Minimum lease payments 2013 £m	Present value of minimum lease payments 2014 £m	Present value of minimum lease payments 2013 £m
Amounts payable under finance leases:				
Within one year	**0.1**	0.1	**0.1**	0.1
In the second to fifth years inclusive	**0.2**	0.2	**0.2**	0.2
	0.3	0.3	**0.3**	0.3
Less: future finance charges	**–**	–		
Present value of lease obligations	**0.3**	0.3		

	2014 £m	2013 £m
Analysed as:		
Amount due for settlement after 12 months	**0.2**	0.2
Amount due for settlement within 12 months (shown under current liabilities)	**0.1**	0.1
	0.3	0.3
The present value of minimum lease payments is denominated in the following currencies:		
Sterling	**0.3**	0.3
	0.3	0.3

The Group's average lease term is 2.2 years. For the year ended 31 December 2014, the average effective borrowing rate was 8.0% (2013: 8.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

21. Other financial liabilities

Trade and other payables

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade creditors	**38.8**	40.9
Other taxes and social security*	**15.1**	18.6
Other creditors	**10.4**	13.8
Accruals and deferred income	**55.0**	58.8
	119.3	132.1
Amounts falling due after more than one year:		
Other creditors	**3.7**	3.6

* 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 2014 is 40 days (2013: 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.

21. Other financial liabilities (continued)

	Less than 1 year 2014 £m	**1–2 years 2014 £m**	**2–5 years 2014 £m**	**5+ years 2014 £m**	**Total 2014 £m**
Non-interest bearing*	**126.2**	**3.3**	**5.6**	**5.2**	**140.3**
Finance lease liability	**0.1**	**0.1**	**0.1**	**–**	**0.3**
Bank loans and overdrafts	**2.5**	**–**	**–**	**–**	**2.5**
Derivative financial instruments	**5.6**	**–**	**–**	**–**	**5.6**
	134.4	**3.4**	**5.7**	**5.2**	**148.7**

	Less than 1 year 2013 £m	1–2 years 2013 £m	2–5 years 2013 £m	5+ years 2013 £m	Total 2013 £m
Non-interest bearing*	139.0	2.0	5.1	6.0	152.1
Finance lease liability	0.1	0.1	0.2	–	0.4
Bank loans and overdrafts	1.6	–	–	–	1.6
Derivative financial instruments	0.9	–	–	–	0.9
	141.6	2.1	5.3	6.0	155.0

* 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 £2.5m (2013: £1.6m) bank loans and overdrafts outflows disclosed above, £nil (2013: £nil) of bank loans are drawn under the committed facility maturing on 3 July 2019. The overdrafts are on-demand and some are part of pooling arrangements, which include offsetting cash balances. Of the £5.6m (2013: £0.9m) derivative financial instruments outflows disclosed above, £5.6m (2013: £0.9m) are matched by derivative cash inflows, therefore the net impact on the balance sheet is £nil (2013: £nil).

22. Provisions

	Restructuring £m	**Restructuring Environmental £m**	**Environmental £m**	**Total £m**
At 1 January 2014	**2.6**	**6.0**	**7.8**	**16.4**
Increase in provision	**3.1**	**0.6**	**1.4**	**5.1**
Release of provision	**(0.1)**	**–**	**(0.8)**	**(0.9)**
Utilisation of provision	**(2.2)**	**(0.8)**	**(0.7)**	**(3.7)**
Exchange difference	**(0.1)**	**0.3**	**0.2**	**0.4**
At 31 December 2014	**3.3**	**6.1**	**7.9**	**17.3**
Included in current liabilities				**6.9**
Included in non-current liabilities				**10.4**
				17.3

The restructuring provision relates to the remaining costs associated with the closure of a number of Heat Treatment sites and with the establishment of an accounting Shared Service Centre in Prague.

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 separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The increase in restructuring provisions is due to the ongoing implementation of the global restructuring initiatives.

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.

23. Share capital

	2014 £m	2013 £m
Issued and fully paid:		
191,456,172 (2013: 191,456,172) ordinary shares of 17 3/11p each	**33.1**	33.1

24. Acquisition of subsidiaries

On 29 August 2014 the Group acquired 100% of the share capital of Holding Menzing Heattreatment BV for a cash consideration of £2.7m. The acquisition was made to strengthen the Group's network and to enhance the process offering in the Netherlands and Northern Germany. The acquisition fits well with the Group's automotive and general industrial strategy.

The transaction has been accounted for by the purchase method of accounting and is summarised below.

	Heat Treatment business of Holding Menzing Heattreatment BV £m
Fair value of net assets acquired:	
Intangible fixed assets	1.2
Property, plant and equipment	1.1
Trade and other receivables	0.3
Trade and other payables	(0.4)
Bank borrowings	(0.5)
Deferred tax liability	(0.4)
	1.3
Goodwill	1.4
Total consideration	2.7
Satisfied by:	
Cash consideration	2.7
Net cash outflow arising on acquisition:	
Cash consideration	2.7

The carrying value of inventories, trade and other receivables and trade and other payables approximates their fair value. Fair values of the acquired identifiable tangible and intangible assets are provisional, pending completion of the final valuations.

The gross contractual value of trade and other receivables was £0.3m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £nil.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the Group's services in new markets and the anticipated future operating synergies from the acquisition. No tax relief in relation to goodwill has arisen as part of this acquisition.

Acquisition-related costs (reported in exceptional items) amounted to £0.2m.

The acquired business contributed £0.7m revenue and £0.2m to the Group's operating profit for the period between the date of acquisition and balance sheet date.

If the acquisition has been completed on the first day of the financial year, Group revenue would have been £610.2m and Group operating profit attributable to equity holders of the parent would have been £111.4m.

25. Notes to the cash flow statement

	2014 £m	2013 £m
Profit for the year	**79.3**	73.1
Adjustments for:		
Investment revenue	**(0.1)**	(0.1)
Finance costs	**3.4**	3.8
Taxation	**24.4**	25.3
Depreciation of property, plant and equipment	**50.3**	51.9
Amortisation of intangible assets	**4.8**	5.5
Profit on disposal of property, plant and equipment	**(1.4)**	(0.1)
Share-based payments	**1.9**	3.6
Impairment of fixed assets	**2.7**	5.1
EBITDA*	**165.3**	168.1
Increase in inventories	**(3.4)**	(0.3)
(Increase)/decrease in receivables	**(2.2)**	0.2
Decrease in payables	**(9.6)**	(4.3)
Increase/(decrease) in provisions	**0.5**	(1.8)
Cash generated by operations	**150.6**	161.9
Income taxes paid	**(19.0)**	(22.5)
Net cash from operating activities	**131.6**	139.4

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

	2014 £m	2013 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**38.5**	16.9
Bank overdrafts (included in borrowings)	**(2.5)**	(1.6)
	36.0	15.3

26. Operating lease arrangements – the Group as lessee

	2014 £m	2013 £m
Minimum lease payments under operating leases recognised as an expense	**15.9**	16.0

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:

	2014 £m	2013 £m
Within one year	**11.6**	11.1
In the second to fifth years inclusive	**24.7**	24.1
After five years	**12.2**	13.2
	48.5	48.4

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, fixtures and fittings and motor vehicles.

27. 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. Vestings of awards are based upon two performance measures, over a three year period.

Fifty percent of the award is subject to a return on capital employed (ROCE) performance condition and fifty percent of the award is subject to 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.

Bodycote Co-investment Plan (CIP)

The CIP permits executives to invest in shares up to a value equivalent to 40% of net basic salary. The CIP provides for the grant of awards of matching shares to participants on an annual basis in a maximum ratio of 1:1 to the gross investment made in deferred shares. Deferred shares must be held for three years and matching shares are subject to an absolute Total Shareholder Return (TSR) target. The threshold target for CIP matching awards is TSR growth of not less than 4% per annum compound in excess of growth in the Consumer Prices Index (CPI) for a threshold matching ratio of 1:2. Ten percent per annum compound growth in excess of growth in the CPI will be required for a vesting matching ratio of 1:1.

The number of outstanding share awards is as follows:

	BIP 2014	**CIP 2014**	BIP 2013	CIP 2013
At 1 January	**2,949,936**	**176,934**	4,186,265	313,318
Granted during the year	**609,981**	**52,312**	840,131	42,849
Exercised during the year	**(1,027,355)**	**(42,455)**	(1,879,726)	(171,806)
Expired during the year	**(210,302)**	**–**	(196,734)	(7,427)
At 31 December	**2,322,260**	**186,791**	2,949,936	176,934
Average fair value of share awards granted during the year at date of grant (pence)	**713.3**	**337.0**	510.5	338.0
Fair value of awards granted during the year (£)	**4,350,994**	**176,291**	4,289,205	144,834

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:

		2014	2013
Weighted average share price	pence	**752.8**	545.8
Weighted average exercise price	pence	**nil**	nil
Expected life	years	**3.0**	3.0
Expected dividend yields	%	**1.8**	2.2

The inputs to the Monte Carlo Simulation model, used to determine the charge to the income statement for CIP, are as follows:

		2014	2013
Weighted average share price	pence	**746.0**	550.5
Weighted average exercise price	pence	**nil**	nil
Expected volatility	%	**35.3**	39.4
Expected life	years	**3.0**	3.0
Risk-free rate	%	**1.2**	0.5
Expected dividend yields	%	**1.8**	2.2

The Group recognised total expenses of £1.9m (2013: £3.6m) related to equity-settled share-based payment transactions.

28. 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:

	2014 £m	2013 £m
Short-term employee benefits	**2.0**	1.7
Share-based payments	**0.6**	1.4
	2.6	3.1

Further information about the remuneration of the individual directors is provided in the Board report on remuneration on pages 51 to 65.

29. 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 £5.6m (2013: £5.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2014 contributions of £0.2m (2013: £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:

	2014 £m	2013 £m
UK scheme	**1.0**	4.8
Non-UK schemes	**16.0**	13.7
	17.0	18.5

Total expense recognised in income statement

	2014 £m	2013 £m
UK scheme	**1.2**	1.2
Non-UK schemes	**1.0**	1.0
	2.2	2.2

Further details of the Group's defined benefit arrangements are given in the Finance Director's report on pages 22 and 23.

29. Retirement benefit schemes (continued)

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, one employer representative 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 Company.

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 2014 is being carried out by a qualified independent actuary and the preliminary results of this have been updated on an approximate basis to 31 December 2014.

The contributions made by the employer over the financial year have been £1.5m, comprising £0.4m in respect of benefit accrual and £1.1m 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.

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

	2014 £m	2013 £m
Defined benefit obligation at start of year	**85.7**	85.6
Current service cost	**0.6**	0.6
Interest expense	**3.8**	3.8
Contributions by plan participants	**0.2**	0.2
Actuarial gains arising from changes in demographic assumptions	**(1.2)**	–
Actuarial losses arising from changes in financial assumptions	**19.6**	0.2
Experience gains on liabilities	**(2.0)**	–
Benefits paid, death in service insurance premiums and expenses	**(3.4)**	(4.7)
Defined benefit obligation at end of year	**103.3**	85.7

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

	2014 £m	2013 £m
Fair value of assets at start of year	**80.9**	81.4
Interest income	**3.6**	3.6
Return on scheme assets excluding interest income	**19.9**	(0.7)
Scheme administration expenses	**(0.4)**	(0.4)
Contributions by employer	**1.5**	1.5
Contributions by plan participants	**0.2**	0.2
Benefits paid, death in service insurance premiums and expenses (incl. age related rebate)	**(3.4)**	(4.7)
Fair value of assets at end of year	**102.3**	80.9

Total expense recognised in the income statement

	2014 £m	2013 £m
Current service cost	**0.6**	0.6
Net interest on the defined benefit liability	**0.2**	0.2
Scheme administration expenses	**0.4**	0.4
Total expenses	**1.2**	1.2

29. Retirement benefit schemes (continued)

Assets

	2014 Quoted £m	**2014 Unquoted £m**	2013 Quoted £m	2013 Unquoted £m
Equities	**17.6**	**–**	12.1	–
Bonds	**60.4**	**4.0**	–	43.4
Cash	**0.3**	**–**	0.7	–
Diversified growth funds	**20.0**	**–**	24.5	0.2
	98.3	**4.0**	37.3	43.6

None of the fair value of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

The scheme's present strategic target is to allocate 65% of the investment portfolio to 'contractual' asset classes including equities, diversified growth funds, absolute return bonds and direct lending, and 35% to 'non-contractual' asset classes, namely Liability Driven Investment (LDI). The LDI portion of assets has been put in place to reduce interest rate and inflation risk.

Assumptions

	2014 % per annum	2013 % per annum
RPI inflation	**3.10**	3.40
CPI inflation	**2.30**	2.60
Salary increases	**3.00**	3.00
Rate of discount	**3.30**	4.50
Allowance for pension in payment increases of RPI or 3% p.a. if less	**2.36**	2.50
Allowance for revaluation of deferred pensions	**2.30**	2.60

Mortality – current pensioners:

	2014	2013
Actuarial tables used	**S2PxA YoB CMI 2013 1.5% long term trend**	S1PxA YoB CMI 2010 1.5% long term trend
Life expectancy for members currently aged 65	**22.6**	22.7

Mortality – future pensioners:

	2014	2013
Actuarial tables used	**S2PxA YoB CMI 2013 1.5% long term trend**	S1PxA YoB CMI 2010 1.5% long term trend
Life expectancy at age 65 for members currently aged 40	**24.8**	25.5

	2014	2013
Cash commutation	**Members commute 75% of maximum permitted**	Members commute 75% of maximum permitted

The weighted average duration of the defined benefit obligation at 31 December 2014 is approximately 18 years (19 years as at 31 December 2013).

29. Retirement benefit schemes (continued)

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

	2014 £m	2013 £m
Present value of defined benefit obligation	**103.3**	85.7
Fair value of plan assets	**(102.3)**	(80.9)
Deficit in the scheme	**1.0**	4.8

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2014 is that recognised in the balance sheet.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2015 is £1.6m.

Amounts recognised in Other Comprehensive Income

	2014 £m	2013 £m
Gain from experience on plan liabilities	**2.0**	–
Return on scheme assets excluding interest income	**19.9**	(0.7)
Effects of changes in financial assumptions underlying the present value of the liabilities	**(19.6)**	(0.2)
Effects of changes in demographic assumptions underlying the present value of the liabilities	**1.2**	–
Total gain/(loss) recognised in Other Comprehensive Income	**3.5**	(0.9)

Impact of changes to assumptions

	2014		2013	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	**(4.8)**	**4.8**	(4.0)	4.0
0.25% change in price inflation (and associated assumptions)	**2.1**	**(2.1)**	1.2	(1.1)
1 year change in life expectancy at age 65	**3.7**	**(3.7)**	2.0	(2.0)

Combined non-UK disclosures

The Group operates schemes in the USA and continental Europe.

In Europe, the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in Belgium, France, Germany, Italy, Turkey, Switzerland and Liechtenstein.

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

	2014 £m	2013 £m
Defined benefit obligation at start of year	**23.0**	23.8
Current service cost	**0.6**	0.7
Interest expense	**0.7**	0.6
Actuarial losses arising from changes in demographic assumptions	**0.1**	–
Actuarial losses/(gains) arising from changes in financial assumptions	**3.2**	(0.7)
Experience losses on liabilities	**–**	0.3
Benefits paid, death in service insurance premiums and expenses	**(0.4)**	(2.1)
Employee contributions	**0.1**	0.1
Settlements	**–**	(0.1)
Exchange rate (gain)/loss	**(1.1)**	0.4
Defined benefit obligation at end of year	**26.2**	23.0

29. Retirement benefit schemes (continued)

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

	2014 £m	2013 £m
Fair value of assets at start of year	**9.3**	9.0
Interest income	**0.3**	0.2
Return on scheme assets excluding interest income	**0.3**	0.2
Contributions by employer	**0.3**	0.2
Contributions by employees	**0.1**	0.1
Benefits paid, death in service insurance premiums and expenses	**0.1**	(0.4)
Exchange rate loss	**(0.2)**	–
Fair value of assets at end of year	**10.2**	9.3

Total expense recognised in the income statement

	2014 £m	2013 £m
Current service cost	**0.6**	0.7
Net interest on the defined benefit liability	**0.4**	0.4
Settlements	**–**	(0.1)
Total expenses	**1.0**	1.0

Assets

	2014 Quoted £m	**2014 Unquoted £m**	2013 Quoted £m	2013 Unquoted £m
Equities	**1.8**	**–**	1.7	–
Bonds	**0.1**	**–**	0.2	–
Cash	**1.5**	**0.1**	1.3	–
Insurance contracts	**–**	**6.7**	–	6.1
	3.4	**6.8**	3.2	6.1

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

Assumptions for 2014

	Salary increases % per annum	**Rate of discount % per annum**	**Inflation % per annum**	**Pension increases % per annum**
USA - metallurgical	n/a	4.1	n/a	n/a
USA - non-metallurgical	n/a	4.3	n/a	n/a
France	2.8	2.0	1.8	1.5
Germany	2.5	1.9	n/a	1.8
Italy	3.0	1.2	1.0	n/a
Turkey	n/a	9.3	5.0	n/a
Liechtenstein	2.5	1.5	n/a	n/a
Switzerland	3.0	1.5	n/a	n/a

29. Retirement benefit schemes (continued)

Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2014 range from 11 years to 16 years. The durations ranged from 9 years to 16 years as at 31 December 2013.

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

	2014 £m	2013 £m
Present value of defined benefit obligation	**26.2**	23.0
Fair value of plan assets	**(10.2)**	(9.3)
Deficit in the schemes	**16.0**	13.7

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2014 is that recognised in the balance sheet.

Amounts recognised in Other Comprehensive Income

	2014 £m	2013 £m
Loss on experience on plan liabilities	**–**	(0.3)
Return on scheme assets excluding interest income	**0.3**	0.2
Effects of changes in financial assumptions underlying the present value of the liabilities	**(3.2)**	0.7
Effects of changes in demographic assumptions underlying the present value of the liabilities	**(0.1)**	–
Total (loss)/gain recognised in Other Comprehensive Income	**(3.0)**	0.6

The only funded plans are those operated in the USA, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2015 is £0.2m.

Sensitivities (changes to total defined benefit obligations)

	2014		2013	
	Increase £m	**Decrease £m**	Increase £m	Decrease £m
0.25% change in discount rate	**(1.0)**	**1.0**	(0.8)	0.9
0.25% change in price inflation (and associated assumptions)	**0.5**	**(0.5)**	0.4	(0.4)

The scheme sensitivities are designed to give a broad indication of the effect of changes to the assumptions, and are applied to adjust the defined benefit obligation at the end of the reporting period.

Five year summary

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Revenue	**609.1**	619.6	587.8	570.7	499.8
Profit:					
Headline operating profit	**111.1**	107.4	97.5	84.9	51.3
Amortisation of acquired intangible fixed assets	**(3.9)**	(4.5)	(2.0)	(0.9)	(0.9)
Operating profit prior to exceptional items	**107.2**	102.9	95.5	84.0	50.4
Impairment charge	**–**	–	–	(4.2)	–
Profit on disposal of investments	**–**	–	2.4	–	–
Acquisition costs	**(0.2)**	–	(2.5)	–	–
Reorganisation costs	**–**	(0.8)	(2.4)	–	–
Operating profit	**107.0**	102.1	93.0	79.8	50.4
Net finance costs	**(3.3)**	(3.7)	(3.0)	(4.2)	(5.9)
Profit before taxation	**103.7**	98.4	90.0	75.6	44.5
Taxation	**(24.4)**	(25.3)	(22.8)	(19.8)	(17.3)
Profit after taxation	**79.3**	73.1	67.2	55.8	27.2
Non-controlling interests	**0.1**	(0.1)	(0.1)	(0.2)	(0.1)
Profit attributable to the equity holders of the parent	**79.4**	73.0	67.1	55.6	27.1
Headline earnings per share (pence)	**43.8**	41.2	37.5	32.6	18.1
Dividend per share (pence)	**14.4**	13.5	12.3	10.9	8.7
Special dividend per share (pence)	**20.0**	10.0	–	–	–
Assets employed					
Intangible fixed assets	**172.1**	167.9	166.8	111.5	118.1
Tangible fixed assets	**434.6**	444.6	448.7	443.9	458.0
Other assets and liabilities	**(71.5)**	(80.1)	(77.2)	(73.2)	(74.3)
	535.2	532.4	538.3	482.2	501.8
Financed by					
Share capital	**33.1**	33.1	33.1	33.0	32.8
Reserves	**537.3**	513.7	469.6	448.0	416.0
Shareholders' funds	**570.4**	546.8	502.7	481.0	448.8
Non-controlling interests	**0.5**	0.6	1.4	1.3	1.7
Net (cash)/borrowings	**(35.7)**	(15.0)	34.2	(0.1)	51.3
Capital employed	**535.2**	532.4	538.3	482.2	501.8
Net assets per share (pence)	**297.9**	285.6	262.6	251.5	236.4
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	**20.7**	19.9	17.9	16.3	10.2

Strategic report Governance **Financial statements** Additional information

Company balance sheet
At 31 December 2014

	Note	**2014 £m**	2013 £m
Fixed assets			
Tangible fixed assets	2	**9.9**	6.7
Investments	3	**392.6**	393.2
		402.5	399.9
Current assets			
Debtors:			
- due within one year	4	**8.9**	14.9
- due after one year	4	**3.8**	5.6
		12.7	20.5
Current liabilities			
Creditors: Amounts falling due within one year	5	**(9.1)**	(14.0)
Net current assets		**3.6**	6.5
Total assets less current liabilities		**406.1**	406.4
Creditors: Amounts falling due after more than one year	5	**(7.1)**	(1.1)
Net assets		**399.0**	405.3
Capital and reserves			
Called-up share capital	7	**33.1**	33.1
Share premium account	7	**177.1**	177.1
Other reserves	7	**128.9**	133.9
Profit and loss account	7	**59.9**	61.2
Shareholders' funds		**399.0**	405.3

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 26 February 2015.

They were signed on its behalf by:

S.C. Harris
Director

D.F. Landless
Director

Company accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable law and United Kingdom accounting standards. 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.

Adoption of Financial Reporting Standard (FRS) 101 – Reduced Disclosure Framework

Following the publication of FRS 100 Application of Financial Reporting Requirements by the Financial Reporting Council, Bodycote plc is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year commencing 1 January 2015. The Board considers that it is in the best interest of Bodycote plc to adopt FRS101 Reduced Disclosure Framework. A shareholder or shareholders may serve objections to the use of the disclosure exemptions on Bodycote plc, in writing, to its registered office (Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF) not later than 22 April 2015.

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 Finance Director's report on page 23.

Investments

Investments are held at cost less provision for impairment.

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

For defined benefit and defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. For further details see note 29 to the consolidated financial statements.

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.

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%
Software	20% to 33%

Residual value is calculated on prices prevailing at the date of acquisition.

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.

Company accounting policies continued

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. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

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 FRS 20 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.

Notes to the company financial statements

Year ended 31 December 2014

1. Profit for the year

Bodycote plc reported a profit for the financial year ended 31 December 2014 of £42.5m (2013: £21.0m).

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 51 to 65 and form part of these financial statements.

2. Tangible fixed assets

	Fixtures and fittings £m	Software £m	Total £m
Cost			
At 1 January 2014	0.8	10.9	11.7
Additions	0.5	3.7	4.2
At 31 December 2014	**1.3**	**14.6**	**15.9**
Depreciation			
At 1 January 2014	0.4	4.6	5.0
Charge for the year	0.2	0.5	0.7
Impairment losses	0.3	–	0.3
At 31 December 2014	**0.9**	**5.1**	**6.0**
Net book value			
At 31 December 2014	**0.4**	**9.5**	**9.9**
At 31 December 2013	0.4	6.3	6.7

3. Investments

	Shares £m	Sundry investments £m	Total £m
Cost			
At 1 January 2014	400.0	0.6	400.6
Disposals	–	(0.6)	(0.6)
At 31 December 2014	**400.0**	**–**	**400.0**
Provision for impairment			
At 1 January 2014	7.4	–	7.4
At 31 December 2014	**7.4**	**–**	**7.4**
Net book value			
At 31 December 2014	**392.6**	**–**	**392.6**
At 31 December 2013	392.6	0.6	393.2

The sundry investments relate to the Bodycote Investment Incentive Plan, as explained in the Board report on remuneration.

Details of principal subsidiary undertakings of the Company are shown on pages 120 to 121.

4. Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**0.4**	1.1
Corporation tax recoverable	**2.1**	4.0
Deferred taxation (note 6)	**1.0**	0.9
Other debtors and prepayments	**5.4**	8.9
	8.9	14.9
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**3.1**	4.9
Other debtors	**0.7**	0.7
	3.8	5.6
	12.7	20.5

5. Creditors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade creditors	**0.5**	0.6
Amounts owed to subsidiary undertakings	**0.8**	0.2
Other taxes and social security	**1.1**	0.9
Other creditors	**2.8**	1.4
Accruals and deferred income	**3.9**	10.9
	9.1	14.0
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	**7.1**	1.1

6. Deferred tax asset

	£m
At 1 January 2014	0.9
Profit and loss charge	0.1
At 31 December 2014	**1.0**

Deferred tax is recognised as follows:	2014 £m	2013 £m
Other timing differences	**1.0**	0.9
Deferred tax asset	**1.0**	0.9

7. Capital and reserves

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

	Number of shares	£m
At 1 January 2014	191,456,172	33.1
At 31 December 2014	**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 27 to the consolidated financial statements.

Reserves:

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2014	177.1	133.9	61.2	372.2
Dividends paid	–	–	(45.2)	(45.2)
Profit for the year	–	–	42.5	42.5
Share-based payments	–	1.8	–	1.8
Acquisition of own shares	–	(7.0)	–	(7.0)
Settlement of share options	–	0.2	1.4	1.6
At 31 December 2014	**177.1**	**128.9**	**59.9**	**365.9**

The other reserves are stated after deducting £7.1m (2013: £5.5m) 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 2014 1,212,547 (2013: 2,035,618) ordinary shares of 17 $^{3}/_{11}$p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these shares was £7.9m (2013: £13.6m).

Included in other reserves is the capital redemption reserve of £129.8m (2013: £129.8m).

8. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £5.4m (2013: £6.7m).

9. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2014 £m	2013 £m
Within one year	**0.3**	0.3
In the second to fifth years inclusive	**0.7**	0.7
	1.0	1.0

Operating lease payments represent rentals payable by the Company for its land and buildings and motor vehicles.

10. Pension commitments

The Company participates in a Group defined benefit scheme, the details of which are disclosed in note 29 to the consolidated financial statements. However, the Company is unable to identify its share of the underlying assets and liabilities and has therefore accounted for the scheme as if it were a defined contribution scheme. Full disclosures concerning the scheme as required by IAS 19 (revised) are set out in note 29 to the consolidated financial statements. These also satisfy the requirements of FRS17 'Retirement Benefits'.

The contributions made by the Company over the financial year to both the defined contribution and the defined benefit schemes amounted to £0.3m (2013: £0.3m) and £0.4m (2013: £0.4m) respectively. As at 31 December 2014, contributions of £0.1m (2013: £nil) due in respect of the current reporting period had not been paid over to the schemes.

11. 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.

Principal subsidiary undertakings

Thermal Processing – Heat Treatment and Metal Joining

Company name	**Plants**	**Country of incorporation**
Bodycote Heat Treatments Limited*	Cambridge, Chard, Coventry, Derby, Gillingham, Great Barr, Hazel Grove, Macclesfield, Rotherham, Skelmersdale, Stillington and Woodford	England
Bodycote Hardiff GmbH	Landsberg	Germany
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Karben, Korntal, Langenfeld, Langenselbold, Lüdenscheid, Menden, Nürnberg, Otterfing, Remscheid, Sömmerda, Sprockhövel and Wehingen	Germany
Bodycote Hardingscentrum BV	Apeldoorn, Diemen, Gandrange, Haaksbergen, Hengelo, Tilburg and Venlo	Netherlands
Bodycote Värmebehandling AB	Göteborg, Hudiksvall, Malmö, Mora, Stockholm, Värnamo, Västerås and Vellinge	Sweden
Bodycote SAS	Amiens, Beaugency, Billy-Berclau, Cernay, Chanteloup-les-Vignes, Chassieu, Condé-sur-Noireau, Duttlenheim, Gemenos, Gorgonzola, Lagny-sur-Marne, La Monnerie-le-Montel, La Talaudière, Le Subdray, Neuilly-en-Thelle, Nogent, Pusignan, Serres Castet, St-Aubin-les-Elbeuf, St-Nicolas-d'Aliermont, St-Rémy-en-Mauges, Villaz and Voreppe	France
Techniques Metallurgiques Avancées SAS	Metz-Tessy	France
Nitruvid SAS	Argenteuil	France
Bodycote Belgium SA	Brussels	Belgium
Bodycote Lämpökäsittely Oy	Pieksämäki, Tampere, Vaasa and Vantaa	Finland
Bodycote Varmebehandling A/S	Ejby and Herlev	Denmark
Bodycote Trattamenti Termici SpA	Madone and Rodengo	Italy
Bodycote Austria GmbH	Kapfenberg, Marchtrenk and Vienna	Austria
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote Schweiz Wärmebehandlung AG	Urdorf	Switzerland
Bodycote HT s.r.o	Brno, Krnov, Liberec and Prague	Czech Republic
Bodycote Polska Sp z.o.o	Chelmno, Czestochowa, Swiebodzin, Warsaw and Zabrze	Poland
Bodycote Tratamente Termice SRL	Brasov and Cugir	Romania
Bodycote Hungary Hökezelö KFT	Budapest	Hungary
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)	Bursa, Istanbul and Izmir	Turkey
Bodycote Thermal Processing, Inc.	Athens AL, Fremont, Huntington Park, Rancho Dominguez, Santa Fe Springs, Vernon, Westminster CA, Berlin, South Windsor, Waterbury CT, Conyers GA, Melrose Park IL, Elkhart, Fort Wayne, Greensburg, Indianapolis IN, Wichita KS, Lafayette LA, Ipswich, Worcester MA, Canton, Grand Rapids, Holland, Livonia MI, Eden Prairie MN, Reidsville NC, Laconia NH, Roselle NJ, Rochester NY, Cincinnati, Cleveland, Columbus, London OH, Oklahoma City, Tulsa OK, York PA, Fountain Inn SC, Morristown TN, Arlington, Fort Worth, Houston TX, New Berlin, Sturtevant WI	USA

Thermal Processing – Heat Treatment and Metal Joining (continued)

Company name	Plants	Country of incorporation
Bodycote Thermal Processing Canada, Inc.	Kitchener and Newmarket ON	Canada
Bodycote Thermal Processing Mexico Limited	Guaymas, Mexico	England
Bodycote Brasimet Processamento Termico Ltda	Campinas, Joinville, Jundiaí and Sao Leopoldo	Brazil
Bodycote Thermal Processing de Mexico S de RL de CV	Silao	Mexico
Bodycote (Wuxi) Technology Co. Limited	Wuxi	China
Bodycote (Ningbo) Heat Treatment Co. Limited	Ningbo	China
Bodycote (Jinan) Heat Treatments Technology Co. Limited	Jinan	China
Bodycote (Kunshan) Heat Treatments Technology Co. Limited	Kunshan	China
Bodycote Metallurgical Services India Pvt Ltd	Ranjangaon	India

Thermal Processing — Hot Isostatic Pressing

Company name	Plants	Country of incorporation
Bodycote H.I.P. Limited*	Chesterfield and Hereford	England
Bodycote IMT, Inc.	Princeton KY, Andover MA, London OH and Camas WA	USA
Bodycote Heiß-Isostatisches Pressen GmbH	Haag	Germany
Bodycote Hot Isostatic Processing NV	Sint-Niklaas	Belgium
Bodycote SAS	Magny-Cours	France
Bodycote Hot Isostatic Pressing AB	Surahammar	Sweden

Thermal Processing — Surface Engineering

Company name	Plants	Country of incorporation
Bodycote Surface Technology Limited*	Knowsley, Newport, Skelmersdale, Stonehouse, Wolverhampton and Dubai	England
Bodycote K-Tech, Inc.	Hot Springs AR and Houston TX	USA
Bodycote Ytbehandling AB	Katrineholm, Karlstad and Västra Frölunda	Sweden
Bodycote SAS	Ambazac and Serres Castet	France
Bodycote Singapore Pte Ltd	Singapore	Singapore

Except where stated, these companies are wholly-owned subsidiaries and have only one class of issued shares. Subsidiaries marked * are held directly by Bodycote plc.

It is agreed that the two German subsidiaries Bodycote Wärmebehandlung GmbH and Bodycote Hardiff GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2014, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code.

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras – lines are open 8.30am until 5.30pm, Monday to Friday) or +44 (0)208 639 3399; Fax: +44 (0)1484 600911; and email shareholderenquiries@capita.co.uk.

- 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 at www.capitaassetservices.com. Shareholders can easily access and maintain their shareholding online by registering at www.capitashareportal.com. To register shareholders will require their investor code, which can be located on a share certificate or tax voucher.

Share dealing service

For information on the share dealing service offered by Capita Asset Services, telephone 0871 664 0364 (calls cost 10p per minute plus network extras; lines are open 8.00am to 4.30pm, Monday to Friday) or +44 (0)203 367 2691 from overseas. For the online service, Capita's commission rates are 1.25%* of the value of the deal (minimum charge £30.50) and for the telephone service, Capita's commission rates are 1.50%* of the value of the deal (minimum charge £40.50). Maximum deal size for online trades is £25,000. Rates for deals above £25,000 will be advised at the time of dealing.

All other charges apply, including stamp duty at 0.5% on all purchases and a £1 Panel on Takeovers and Mergers levy on transactions over £10,000.

* The commission charges are correct at the time of printing and may be subject to change. For information on the current charges and to find out more visit www.capitadeal.com.

Dividend reinvestment plan (DRIP)

Capita'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 Capita Asset Services, a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call 0871 664 0381 (calls to this number cost 10p per minute plus network extras) or +44 (0)208 639 3402 from overseas. Lines are open from 9.00am to 5.30pm, Monday to Friday, excluding public holidays. Alternatively, email shares@capita.co.uk or log on to www.capitashareportal.com.

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

Capita has partnered with Deutsche Bank to provide overseas shareholders with a service that will convert sterling dividends into local currency at a competitive rate. Overseas shareholders can choose to receive payments directly into local bank accounts, or alternatively, can be sent a currency draft. Overseas shareholders can sign up for this service on the Share Portal (by clicking on 'Your Dividend Options' and following the on screen instructions) or by contacting the Customer Support Centre. For further information contact Capita on 0871 664 0385 (UK calls cost 10p per minute plus network extras) or +44 (0)208 639 3405 from overseas. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays. E-mail: ips@capita.co.uk.

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 Capita, who will be pleased to carry out your instructions.

Shareholder analysis

Analysis of share register as at 16 February 2015:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	965	42.3	409,005	0.2
1,001 to 10,000	905	39.7	2,902,927	1.5
10,001 to 100,000	248	10.9	7,899,954	4.1
100,001 to 500,000	92	4.0	21,003,601	11.0
500,001 and over	71	3.1	159,240,685	83.2
	2,281	**100.0**	**191,456,172**	**100.0**

Type of shareholders	% of shareholders	% of total shares
Directors' interests	0.3	0.6
Major institutional and corporate holdings	31.7	97.8
Other shareholdings	68.0	1.6
	100.0	**100.0**

As at 16 February 2015 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules.

Type of shareholders	Number of shares	%
Standard Life Investments Ltd	27,965,822	14.6
Mondrian Investments Partners Ltd	12,935,934	6.8
Old Mutual Global Investors (UK) Limited	11,420,853	6.0
Dimensional Fund Advisors, LP	9,908,173	5.2
Baillie Gifford & Co	8,130,521	4.2
Schroder Investment Management Ltd	7,788,878	4.1
Franklin Templeton Fund Management Limited	7,725,000	4.0
BlackRock Investment Management (UK) Ltd	6,193,567	3.2

Company information

Advisers

Auditor
Deloitte LLP

Principal bankers
HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, Lloyds TSB Bank plc, UniCredit Bank AG, ING Bank NV, Wells Fargo Bank, NA and KBC Bank NV

Solicitors
Eversheds LLP and Herbert Smith Freehills LLP

Financial calendar

Annual General Meeting	23 April 2015
Final dividend for 2014	1 May 2015
Interim results for 2015	July 2015
Interim dividend for 2015	November 2015
Results for 2015	February 2016

To view the Bodycote Annual Report online visit
http://bodycote.annualreport2014.com

www.bodycote.com

For the online version of this report go to
bodycote.annualreport2014.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

Produced by Jones and Palmer
www.jonesandpalmer.co.uk

MIX
Paper from
responsible sources
FSC® C100528
www.fsc.org