

# Directors' report

The directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2018.

The Chair's statement, the Chief Executive's review, the Chief Financial Officer's report and all the information contained on pages 20 to 28 together comprise the Directors' report for the year ended 31 December 2018.

## Strategic report

The Strategic report is provided on pages 4 to 37 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 2018, key performance indicators and a description of the principal risks and uncertainties facing the Group. The Strategic report has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year no important events affecting the business of the Group have occurred.

## Dividends

The Board has recommended a final dividend of 13.3p (2017: 12.1p) bringing the total ordinary dividend to 19.0p per share (2017: 17.4p). If approved by shareholders, the final dividend of 13.3p per share will be paid on 7 June 2019 to all shareholders on the register at the close of business on 23 April 2019. A special dividend of 20.0p has also been proposed and will be subject to shareholder approval. If approved, it will be paid on 7 June 2019.

## Share capital

The Company's issued ordinary share capital as at 31 December 2018 was £33.1m. No shares were issued during the year. At the AGM on 30 May 2018 the shareholders authorised the Company to purchase up to 22,046,468 of its own shares. This authority expires at the conclusion of the forthcoming AGM to be held on 24 May 2019, 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 40. Under the Articles of Association the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

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

## Directors

The current directors and their biographical details are listed on page 38 to 39 and all served throughout the year. A.C. Quinn commenced as Chair as of 1 January 2018. A further Non-Executive Director, L. Chahbazi was appointed effective 1 January 2018. In line with the UK Corporate Governance Code, all directors retired at the AGM in 2018 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 2019 AGM are A.C. Quinn, S.C. Harris, D. Yates, I.B. Duncan, E. Lindqvist, P. Larmon and L. Chahbazi. The service agreements for Messrs S.C. Harris and D. Yates are terminable by 12 months' notice. The remaining directors do not have a service agreement with the Company and their appointments are terminable by six months' notice.

## Directors' interests in contracts and shares

Details of the executive directors' service contracts and details of the directors' interests in the Company's shares and share incentive plans are shown in the Board report on remuneration on pages 56 to 77. No director has had any dealings in any shares or options in the Company since 31 December 2018. 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 2018 and, as at the date of this report, remains in force for the benefit of the current directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

## Potential conflicts of interest

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

## Employment

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

## Greenhouse gas emissions

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

## Donations

There were no political contributions in 2017 or 2018.

## Shareholders

An analysis of the Company's shareholders and the shares in issue at 25 February 2019 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 142.

## Auditor

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

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

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

## Annual General Meeting

The 2019 Annual General Meeting will be held on 24 May 2019 in accordance with the notice being sent to shareholders with this report.

By order of the Board:

### U.S. Ball

Group Company Secretary  
8 March 2019

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