Bodycote

Annual Report 2023

Bodycote plc

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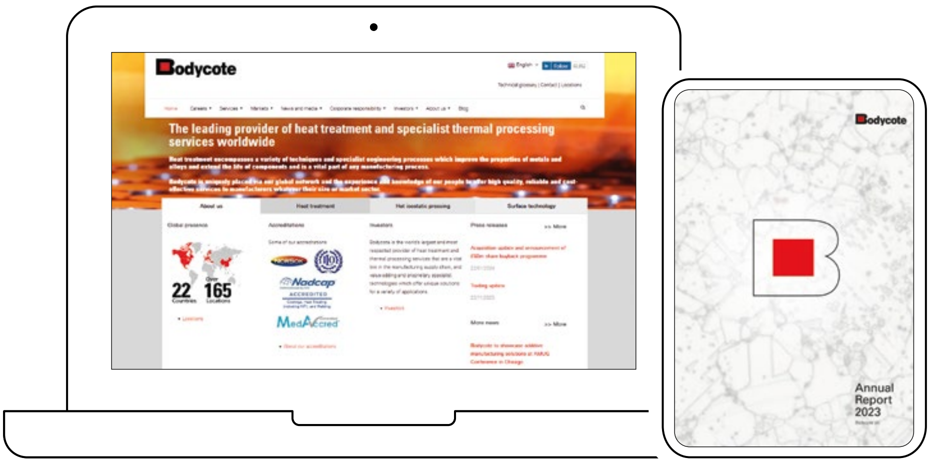


www.bodycote.com/investors
for more information

In preparing this Strategic report, the Directors 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.

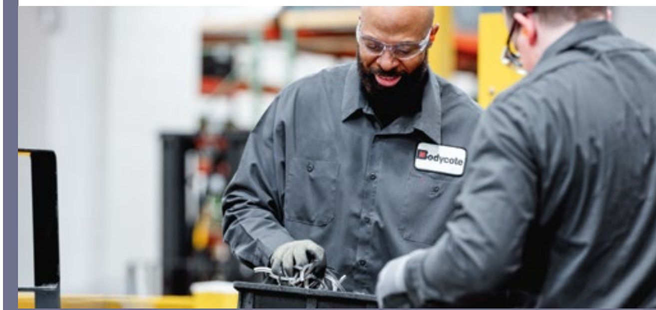
Understanding Bodycote

Bodycote is the world's leading provider of thermal processing services. As the partner of choice for many of the world's most respected manufacturing companies, our purpose is to provide a vital link in the manufacturing process that makes the products our customers manufacture fit for purpose.

Our breadth of solutions across multiple technologies creates value through superior customer service for our customers across aerospace, defence, energy, automotive and general industrial markets. Our unique business model, expertise and global infrastructure mean we can adapt to our customers' needs and continue to deliver long-term success for our shareholders and other stakeholders.

Driving performance with our Core Values

Honesty and Transparency



We cultivate a culture of transparency, where honesty and integrity are the foundation of our business and our relationships. Trust is at the heart of everything we do.

Respect and Responsibility

We behave individually and collectively with respect for each other, our stakeholders and the environment, conducting business responsibly, taking ownership of our actions.

Creating Value

We create value for our employees, customers and shareholders, and this is the very essence of Bodycote.

+ **Page 35** for more information

Understanding Bodycote
Our markets

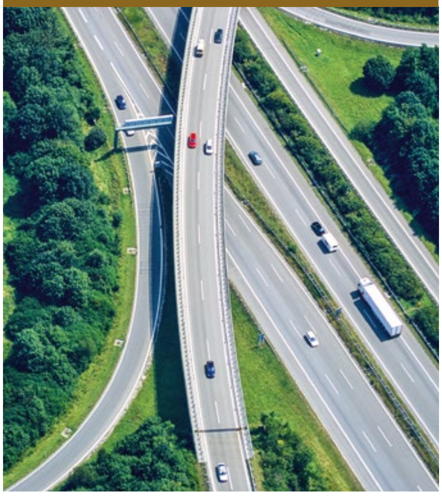
Bodycote offers materials solutions for virtually every market sector, providing expertise across classical heat treatment and specialist thermal processes. Bodycote supports many market sectors; however, we categorise our business into three major groups:

Aerospace and Defence

The aerospace market is highly complex and requires significant technical expertise. Within this market we primarily provide thermal processing solutions for engine components, which often undergo extremely challenging operating conditions, as well as landing gear and other aircraft components. We provide these solutions across various applications, including commercial, business and military aircraft.

Bodycote operates an international network of quality accredited facilities supporting prime aerospace manufacturers and their supply chains.

Automotive



Focused on key components in the car, light truck, heavy truck and bus markets, thermal processing delivers greater strength and durability.

Bodycote has developed strategic partnerships with major automotive Original Equipment Manufacturers (OEMs) and their supply chains by offering comprehensive thermal processing support on a global basis.

General Industrial (including Energy)

We serve a vast range of customers across multiple industry segments in our General Industrial business. These customers span markets including power generation, tooling, industrial gas turbines, medical equipment, electronics, agriculture, industrial machinery, construction and oil & gas components.

Our success in these markets is due to the breadth of processes available within Bodycote and our extensive technical resources, combined with our local plant network and superior customer service, allowing for the development of cost-effective solutions for our customers.

Our technologies

Bodycote's purpose is to support our customers in producing superior components. Our thermal processing services encompass a variety of heat treatment techniques and specialist technologies that extend the life of components. Bodycote addresses the markets we serve with our exceptional service levels and unmatched ability to satisfy customers' needs.

Classical Heat Treatment

Classical Heat Treatment is the process of controlled heating and cooling of metals to obtain the desired mechanical, chemical and metallurgical properties during the manufacturing of a product.

Product life is extended by accurately treating products, carried out in precisely controlled industrial furnaces that can heat to temperatures above 1000°C and use quenchants like oil, water or nitrogen gas to cool the heated material. During the process, the microstructure of the metal transforms, resulting in the hardening or softening of the material depending on the process. Engineers can design thinner, lighter, but stronger components with the help of Classical Heat Treatment. The extended life of our customers' products positively impacts the environment by reducing their carbon footprint.

We provide an indispensable set of processes within the manufacturing chain of most of the products used in daily life. By providing wear resistance, strength or toughness, depending on the application, the components we treat last longer, reduce downtime, increase the lifespan of the products our customers manufacture and improve the sustainability of their products. Surface hardness can be controlled by diffusing elements such as carbon and nitrogen into the metal during the heating stages of the process. The heat treatment of products impacts daily life, whether it's a vehicle seatbelt buckle to ensure that it keeps the passenger safe during an accident or a turbine blade bringing power to your neighbourhood.

Specialist Technologies

Our Specialist Technologies business is a selection of highly differentiated, early-stage processes with high margins, significant market opportunities and appealing growth prospects. Our Specialist Technologies generally emit lower carbon emissions and, therefore, are better for the environment. Bodycote is either the clear market leader or one of the top players among a small number of competitors.

Hot Isostatic Pressing (HIP) Services
Improves component integrity and strength by application of extreme pressure and heat.

HIP PF including Powdermet®
Additive manufacturing of often complex components by combining with HIP.

Specialty Stainless Steel Processes (S³P)
Improves the strength, hardness and wear resistance of stainless steel. Standard heat treatments negatively impact the corrosion resistance of stainless steel, but our proprietary S³P processes can provide dramatically improved material properties while maintaining corrosion resistance.

Surface Technology
Enhances component life using ceramic and metal coatings.

Low Pressure Carburising (LPC)
Obtains a hardened surface and a tough core under vacuum using a cleaner process than atmospheric carburising, providing improved wear resistance and fatigue life with less distortion.

Corr-I-Dur® (CiD)
Improves corrosion resistance and wear properties and is primarily used as a sustainable substitute for hard chrome.

Understanding Bodycote
Our global network

Delivering quality through our international network of facilities.

Bodycote offers significant advantages to our customers as the only global thermal processing service provider. Through an international network of facilities, 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 more than 165 facilities, with customers benefitting from Bodycote's comprehensive range of services across multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They recognise that if they broaden their manufacturing footprint, Bodycote will assist them. They know that they can obtain the same process at the same quality standards from multiple locations. Customers understand that Bodycote can operate its facilities more efficiently and reduce their overall impact on the environment, assisting them in achieving climate impact targets.

Such an extensive network brings economies of scale, with technology developed at one location being available globally if the market requires it. Similarly, network utilisation is enhanced by using logistics to put customers' work into the most effective facility to meet their requirements. Moreover, the network allows Bodycote to specialise in fewer technologies per location, reducing complexity, increasing efficiency and reducing the carbon footprint of our operations.

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.

>40,000
customers

4,833[1]
employees

>165
facilities

22
countries

Revenue by geography

North America	**36%**
Western Europe	**52%**
Emerging Markets	**12%**

Revenue by market sector

Aerospace and Defence	**27%**
Automotive	**24%**
General Industrial (including energy)	**49%**

1 At year end 2023.

North America

Bodycote is the largest provider of thermal processing services in North America with comprehensive network coverage. This network offers more than 55 facilities convenient to customers in all areas where manufacturing and technical industries are concentrated.

Revenue by market sector

Aerospace and Defence	**44%**
Automotive	**19%**
General Industrial (including energy)	**37%**

>55
facilities

1,545
employees

Western Europe

Bodycote operates facilities across Western Europe and is the number one provider of thermal processing services, with the largest network and comprehensive service offering with facilities near major industrial hubs.

Aerospace and Defence	**18%**
Automotive	**20%**
General Industrial (including energy)	**62%**

>80
facilities

2,284
employees

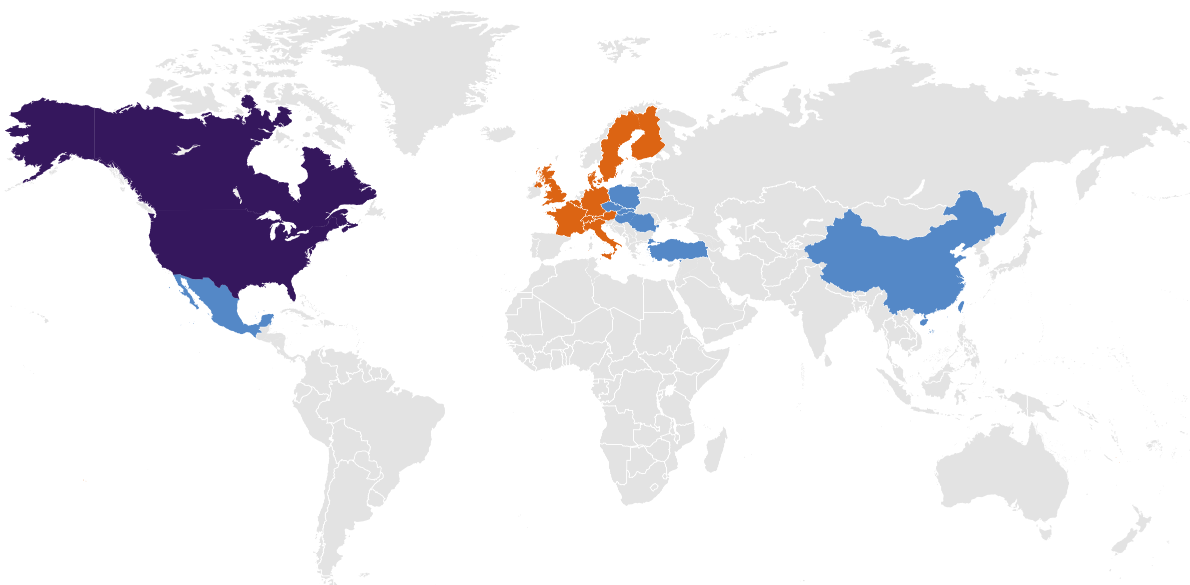
Emerging Markets

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

Aerospace and Defence	**10%**
Automotive	**57%**
General Industrial (including energy)	**33%**

>25
facilities

1,004
employees



Understanding Bodycote
Highlights

Highlights

Financial summary

	2023	2022
Revenue	**£802.5m**	£743.6m
Headline operating profit[1]	**£127.6m**	£112.2m
Headline operating margin[1]	**15.9%**	15.1%
Headline operating margin excluding surcharges[1]	**17.3%**	16.1%
Free cash flow[1]	**£122.5m**	£84.0m
Basic headline earnings per share[1,2]	**48.4p**	42.7p
Full year dividend per share	**22.7p**	21.3p
Return on capital employed[1]	**14.8%**	13.3%

Additional statutory measures

	2023	2022
Operating profit	**£119.2m**	£102.0m
Operating profit margin	**14.9%**	13.7%
Profit after tax	**£86.8m**	£74.3m
Net cash generated from operating activities	**£191.6m**	£142.9m
Basic earnings per share	**45.1p**	38.6p

Financial performance

- Revenue up 8% to £802.5m. Growth of 6% excluding energy-related surcharges
- Headline operating profit of £127.6m, 17% higher at constant currency
- Headline operating margin of 15.9%, up 80bps; 17.3% excluding surcharge revenue, up 120bps
- Headline EPS[1,2] growth of 13% to 48.4p
- Return on capital employed[1] up 150bps to 14.8%
- Free cash flow improved by £38.5m to £122.5m[1]
- Full year dividend per share of 22.7p, up 7%, 36-year record of growing or maintaining the dividend

Key achievements

- Revenue growth led by Specialist Technologies, up 12% excluding surcharges[3]
- Strong performance in aerospace, oil & gas and medical markets
- 4% reduction in absolute energy consumption, notwithstanding 8% revenue growth
- Significant margin improvement; on track to achieve margins in excess of 20% over the medium term
- Returned to historical levels of free cash flow conversion[1] of over 90%
- Disciplined capital allocation resulting in the £52m acquisition of Lake City in January 2024 and a £60m share buyback commencing 15 March 2024
- Delivering successfully on all strategic focus areas

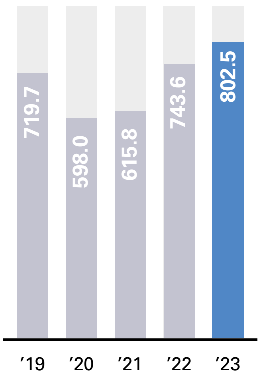
1 The headline performance measures represent the statutory results excluding certain items. These are deemed alternative performance measures under the European Securities and Markets Authority guidelines. Please refer to page 152 for a reconciliation to the nearest IFRS equivalent.

2 A detailed EPS reconciliation is provided in note 8 of the consolidated financial statements.

3 At constant currency.

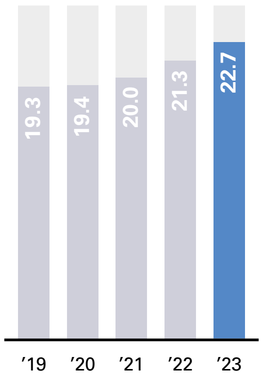
Financial highlights

Revenue
£m



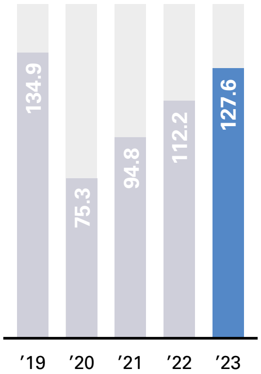
£802.5m

Full year dividend per share
pence



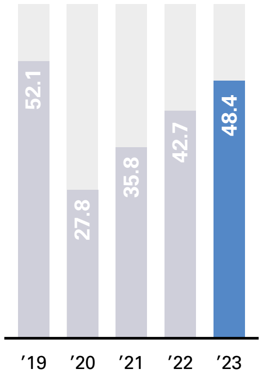
22.7p

Headline operating profit
£m



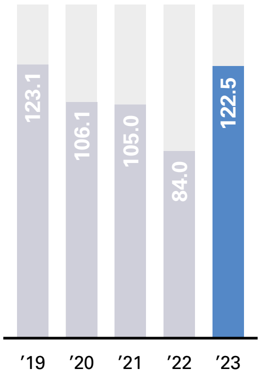
£127.6m

Basic headline earnings per share
pence



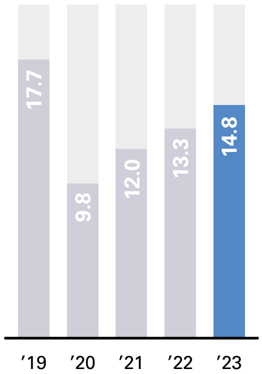
48.4p

Free cash flow
£m



£122.5m

Return on capital employed
%



14.8%

Understanding Bodycote
The investment proposition

We provide expertise in heat treatment and specialist thermal processes across a wide variety of markets. We aim to create sustainable value for all our stakeholders, whether investors, customers, employees or the communities where we operate.

Scale and expertise as the world's number one service provider of heat treatment and specialist thermal processing

Business resilience to a downturn derived from flexibility of the workforce, diversity of end-markets, continuous improvements in business quality and geographic spread

Significant barriers to entry in Specialist Technologies, Emerging Markets and civil aerospace

Consistently strong margins and excellent free cash flow generation

Highly cash-generative business funding both investment and cash returns to shareholders

Superior growth opportunities in Emerging Markets and secular growth markets of civil aerospace, electric vehicles, and medical products

Plentiful investment opportunities to drive margins and returns

Specialist Technologies with high margins and high growth rates will become a larger portion of the Group

Low-carbon market opportunity a major enabler of Scope 4 avoided emissions for customers through outsourcing

Strong balance sheet providing options to drive shareholder value

Disciplined capital allocation focused on investing in the business and returning capital to shareholders

Key investment strengths

A strategy in place to further enhance margins and growth through:

- Increasing the size of our Specialist Technologies business with its superior margins, higher growth characteristics and lower emissions
- Investment in development and localisation opportunities in Emerging Markets
- Investment in secular growth end-markets of civil aerospace and electric vehicles
- Improving the mix of the Classical Heat Treatment business
- Proactive approach to ESG and sustainability
- Investment in acquisitions and greenfield sites
- Strategy that can accommodate widely differing market outcomes

>£310m

invested in capacity growth in last five years

>£225m

returned to shareholders in last five years

What you can expect

Higher growth markets of Specialist Technologies, Emerging Markets and civil aerospace already constitute more than half of the Group revenues and more than 60% of the Group's headline operating profit

- These higher margin and growth opportunities are expected to continue to outperform the Classical Heat Treatment business

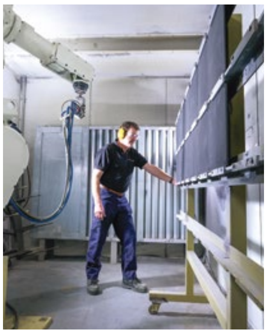
Classical Heat Treatment should perform ahead of markets, driven by:

- Increasing demand for improved materials and quality
- Additional outsourcing as customers understand that Bodycote is part of the solution to reducing their carbon emissions

Continued selected acquisitions

- Four key acquisitions in the last five years

All on top of underlying industrial production growth



Chair’s statement

> Bodycote is a service business, reliant on its people at all levels. The Group has exceptional people who understand the needs of our customers and are committed to delivering outstanding performance for them and for our shareholders.

D. Dayan
Chair

Overview

I am pleased with Bodycote’s performance in 2023, which delivered further strong growth in revenue, profitability and cash flow. Our Executive team has made significant strides in delivering our strategic objectives and generating value for all our stakeholders. Since the year end, we successfully closed the acquisition of Lake City, strengthening further our Specialist Technologies offering. Appointing a new Group Chief Executive to succeed Stephen Harris after his successful 15 years leading Bodycote was a very significant step, and the Board is delighted Jim Fairbairn has joined us in March 2024 to continue the positive developments that have marked Stephen’s tenure.

Dividend and shareholder returns

The Board is proposing a final dividend of 16.0 pence per share, an increase of 7%, to be paid on 6 June 2024 subject to shareholder approval at the 2024 Annual General Meeting (AGM). Combined with the interim dividend of 6.7 pence, this takes the full year dividend to 22.7 pence per share for the year, a 7% increase, returning £43m to shareholders.

In addition to the regular dividend, the Group announced in January 2024 the intention to launch a £60m share buyback. This will commence on 15 March 2024. Taken together with the dividend, this underlines the Board’s commitment to delivering returns to our shareholders and pursuing a balanced and flexible approach to capital allocation.

Board and governance

In May 2023, when Stephen Harris announced his plan to retire from Bodycote at the 2024 AGM, the Board launched an extensive search to find his successor, considering both internal and external candidates. Jim Fairbairn joined the Board in March 2024 and following a comprehensive induction programme, will be ready to take up the position of Group Chief Executive on Stephen’s departure. We welcome Jim to the Company.

Bodycote has been transformed since Stephen was appointed Group Chief Executive in 2009. His legacy and impact on Bodycote will be enduring and we thank him deeply and sincerely for his work and dedication. With Jim Fairbairn’s succession as Group Chief Executive we are well-positioned for the next chapter of Bodycote’s evolution.

We welcomed Beatriz García-Cos Muntañola to the Board in September 2023. Her experience within the industrial manufacturing and metals industry and as a serving Chief Financial Officer makes her a further well-qualified Non-Executive Director.

Governance remains a focal point for me as Chair and for the Board as a whole. As a Board, we continually keep our governance approach under review to ensure it remains effective and in-line with best practice as it evolves; this is discussed in detail in the corporate governance report on page 56.

People

I would like to thank all our colleagues across Bodycote for their hard work and commitment on behalf of stakeholders during 2023. As a service business, it is their dedication to delivering outstanding service levels that sets us apart, and we are fortunate to have an impressive team of experienced people across all levels of the organisation who deliver against demanding expectations.

Sustainability

During 2023 the Board has been actively involved in oversight of the execution of our sustainability strategy. Our Sustainability report, on page 35, highlights the efforts and progress the Group has made. In particular, given the energy-intensity and relatively simple supply chains of Bodycote’s businesses, carbon emissions remain our sustainability priority. Our operations continued to successfully execute on a range of carbon reduction plans which put us on a path to deliver against the Science Based Target initiative (SBTi) targets. Our commitment to sustainability is an active part of the Group’s strategy and is incorporated into our leadership team’s core objectives. We are well placed to meet our goals underpinned by a set of clear action plans which are laid out for the entire organisation and approved by the Board.

Shareholders

Throughout 2023, I had the privilege of engaging with many of our shareholders to understand their various points of view, especially when considering the appointment of our new Group Chief Executive. The Board appreciates the support of our shareholders and takes their views into account as part of our decision-making processes. I look forward to further opportunities to meet with shareholders through 2024.

Summary

Overall, the Group has made good progress in 2023, remains in a strong financial position and has the capability to take advantage of many opportunities ahead. I am confident that Bodycote will continue to perform well and deliver value to our customers, shareholders and employees.

D. Dayan
Chair
15 March 2024

Chief Executive's review

> In 2023, we once again delivered good revenue growth and improved financial performance, as well as making progress against our strategic priorities.

S.C. Harris
Group Chief Executive

Full year commentary

Overview

Group revenue increased 8% to £802.5m in 2023. Excluding surcharges which have continued to be applied in order to recover high energy prices, revenue was up 6% at constant currency. This growth reflected significant progress in the Group's strategic focus areas, and was despite a mixed end-market picture, particularly in the second half of the year. Bodycote delivered continued outperformance in Specialist Technologies, up 12% at constant currency and excluding surcharges, compared with Classical Heat Treatment which grew by 4% at constant currency. Good revenue progress was delivered with strong performance, in particular, in civil aerospace (+12%), medical (+24%) and energy (+27%).

Headline operating profit increased 14% to £127.6m, from £112.2m in 2022 (+17% at constant currency). Headline operating margin improved to 15.9% (2022: 15.1%). Adjusting for the revenue impact of energy surcharges, headline operating margin increased by 120bps to 17.3%. Cost inflation was successfully covered through price increases. Margin improvement was led by the ADE business, where headline operating margins rose by 410bps to 21%, driven by strong revenue growth in Aerospace and Defence, in addition to the successful actions to improve pricing and operational performance in Surface Technology.

Statutory operating profit increased from £102.0m to £119.2m.

Basic headline earnings per share increased by 13% to 48.4p (2022: 42.7p). Basic earnings per share rose 17% to 45.1p (2022: 38.6p), reflecting the increase in statutory operating profit.

The Group delivered a significant improvement in free cash flow, which increased £39m to £123m (2022: £84m). This reflected higher operating profit, as well as a significant improvement in working capital control, through better receivables collection. Investment in maintenance capital expenditure increased by £6m reflecting ongoing steps to drive improvements in equipment uptime performance.

As a result of the cash flow performance, the balance sheet further strengthened, with a closing net cash position excluding lease liabilities of £12.6m (2022: £33.4m net debt excluding lease liabilities).

Disciplined and balanced capital allocation to drive shareholder value

The Group's strong financial position provides flexibility for disciplined and balanced capital allocation, with a number of actions taken during 2023 and in early 2024.

In 2023, the Group invested £85.5m (2022: £74.3m) in capital expenditure, including expansionary capital expenditure of £27.8m (2022: £22.1m). Over 80% of the expansionary spend was deployed in our strategic focus areas of Specialist Technologies, Emerging Markets, civil aerospace and electric vehicles.

Full year DPS was increased by 7% to 22.7p, continuing a 36-year track record of growing or maintaining the dividend. The total cash returned to shareholders through dividends in 2023 was £40.6m (2022: £38.5m).

In January 2024, the Group announced completion of the acquisition of Lake City Heat Treating for a total gross consideration of £52m (£46m net of expected tax benefits). Lake City is a leading hot isostatic pressing (HIP) and vacuum heat treatment business in Warsaw, Indiana, serving the orthopaedic implant market as well as civil aerospace. It fits well with the strategic focus on growing further the Group's Specialist Technologies revenue in addition to significantly expanding the Group's presence in the structurally attractive medical market.

In addition, a £60m share buyback programme was announced in January, which will commence on 15 March 2024. Further details are provided in a separate announcement.

Business focus

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

Chief Executive's review continued

Specialist Technologies

Specialist Technologies are differentiated, early-stage processes with high margins, large market opportunities and good growth prospects, where Bodycote is either the clear leader or one of the top players among few competitors. A key part of the Group's strategy is to grow these businesses and, over time, to increase their relative weight within our portfolio. Over the past six years, Specialist Technologies has now outgrown Classical Heat Treatment by on average c.10% per year (at constant currency and excluding surcharges).

In 2023, revenue from Specialist Technologies grew by 12%, supported by existing customer growth and ongoing sales and marketing efforts to drive higher rates of new adoption of these processes. To service this growth there was also investment in additional capacity, with 58% of expansionary capital expenditure in 2023 (£16m) invested in Specialist Technologies. In 2023 this included HIP capacity expansion in the US on the East Coast and in the Midwest, growth in our S^{3}P businesses in Mooresville, North Carolina and in Vellinge, Sweden, as well as additional LPC capacity in Hungary to support electric vehicle production. In 2024 we expect to drive further expansion, including new Corr-I-Dur® capability in China and additional HIP capacity at several sites in the US.

Market sectors

Aerospace & Defence revenue of £214m was 15% higher than the prior year, 11% higher excluding the impact of energy surcharges. Civil aerospace revenue was 12% higher excluding surcharges, as production rates for commercial aircraft and engines continued to recover, and there was a considerable step-up in air traffic and related aftermarket and servicing activity. Further growth in OEM production volumes and aftermarket activity is expected in 2024, which the Group is well positioned to capture through strong exposure on newer engine programmes like the CFM LEAP engine. Supply chain issues continue to temper growth in civil aerospace, although there was some improvement in the second half of 2023. Outside civil aerospace, we also saw good growth in defence (up 10%), notably in France and the US, and in the space sector.

Automotive revenue was £195m, 6% higher in the year, 5% growth excluding the impact of energy surcharges. Growth was led by Emerging Markets, which saw strong performance in Eastern Europe (up 24%), partly offset by weakness in China and Mexico. There was modest growth in Western Europe, where heavy truck and bus sales grew strongly but light vehicle sales were flat. Automotive revenue in North America grew by a low single digit percentage. There was considerable order activity in electric vehicles (EVs), including battery electric vehicles and hybrids. We secured further major new OEM contracts for EV components in Emerging Markets, North America and Europe, which will progressively ramp-up in the coming years.

General Industrial (including energy) revenue increased 6% to £394m, which represented 4% growth excluding surcharges. There was significant variation across end markets, with energy sales increasing 27%, and with continued strong growth delivered in medical, up 24%. There were more challenging conditions in the manufacturing, industrial machinery, tooling, and electronics markets, which saw declines in the second half of the year.

Sustainability

We are proud of the work we do to improve sustainability through our innovative range of metallurgy services across a multitude of markets and applications. Our services deliver a wide range of sustainability benefits to customers: extending the lifespan of components, reducing carbon emissions, supporting the development of low-carbon industries, and enabling lighter and thinner components to be adopted for more sustainable manufacturing. With increasing pressure on companies to decarbonise their activities to meet emissions targets and align with emerging legislation, Bodycote's role in helping customers reduce emissions has never been more important.

As part of our sales and marketing agenda, in 2023 we accelerated our work to develop digital tools that automate the quantification of carbon savings for customers. Emissions are up to 60% lower when parts are processed in our facilities, compared with customers' own in-house processing. Our tools will enable us to demonstrate the positive impact of outsourcing to Bodycote, enabling our customers to reduce their operational emissions, and avoid some emissions entirely.

Our work to transition customers to lower carbon technologies also gained momentum in 2023. Encouraging accelerated conversion to these technologies plays a role in reducing emissions, while driving growth at the same time. We secured several new contracts in the year where avoided carbon emissions (Scope 4) were a critical factor for our customers.

The pace of investment in our own carbon reduction programme continues to accelerate. This also yields a financial payback through lowering the cost of energy, driving higher margins. The Group's energy consumption reduced by 4% in 2023 as a result of our initiatives, notwithstanding the 8% growth in Group revenue. We are well on track to achieve our Science Based Target[1] for emissions reduction, having now reduced emissions by 24% since 2019.

Summary and outlook

In 2023 we once again delivered strong revenue growth and improved financial performance, as well as making progress against our strategic focus areas.

We delivered significant headline operating profit margin improvement, notably in the ADE business, helping to drive Group margins to 17.3%, excluding surcharges. Headline EPS increased by 13% to 48.4p. Bodycote returned to the strong levels of cash conversion which are more typical for the business, with free cash flow of £123m, up 46%, reflecting improved working capital management.

We will continue to deliver on our strategic focus areas in 2024, including driving growth in Specialist Technologies, capitalising on the growth opportunities from delivering carbon reductions for our customers, and integrating the newly acquired Lake City business.

Despite macroeconomic uncertainty we expect to deliver further progress in 2024. We anticipate a reduction in the level of energy surcharges, reflecting further normalisation of energy prices.

2024 should see us take another step towards our medium term margin target of more than 20%.

The Board remains confident in the Group's prospects for continued profitable growth.

S.C. Harris
Group Chief Executive
15 March 2024

1 Bodycote has signed up to emissions reductions in line with the Science Based Targets initiative (SBTi).

Case study: A real world example

Driving the green energy transition with Specialist Technologies

In 2023, Bodycote began work on a major new multi-year contract to provide efficient processing of automotive parts destined for hybrid vehicles, using low pressure carburising (one of our Specialist Technologies). The win marked another key milestone in the Group's efforts to transition customers into adopting newer, lower-carbon heat treatment processes.

Bodycote won the contract with a key supplier to a leading global automaker and is providing heat treatment services for a number of parts in the vehicles' driveline system.

Instead of quoting for services using traditional processing methods, as the customer had requested, Bodycote proposed low pressure carburising (LPC) for the customers' parts. The LPC process enables a significant reduction in the amount of energy required to achieve the same metallurgical properties for a product. It cuts processing time by around 20% and the amount of energy required by 50%. Process gas – needed to achieve carburisation – is also reduced by 99% in LPC technology.

As the LPC process uses electricity, as opposed to gas, it also enables a continuous reduction in products' carbon footprints as the grid becomes increasingly decarbonised over time.

Through the application of our specialist knowledge and expertise, Bodycote successfully transitioned the customer to a process that will enable them to achieve significant emissions avoidance and provide low carbon revenue growth at high margins for Bodycote at the same time.

20% less
processing time using Bodycote's LPC process

50% saving
in energy using LPC versus traditional processing methods

99% reduction
in process gas used

Strategy and objectives

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

	Strategic priorities	Objectives
1	Safety and Climate Change	We have a strategic commitment to ensuring the safety of our employees and reducing our direct environmental impact, specifically on climate change.
2	Capitalising on and investing in our Specialist Technologies	Delivering unique solutions that provide customers with innovative, high-value-added products to meet the changing needs within component manufacturing, as well as helping them reduce their impact on the environment.
3	Investing in Emerging Markets	Expanding alongside our customers, with an emphasis in markets delivering higher growth in Eastern Europe, Mexico and China.
4	Investing in structural growth opportunities	We invest in structural growth markets of civil aerospace and electric vehicles.
5	Driving operational improvement	Continuous improvement of business processes and systems makes us more efficient and responsive.
6	Acquisitions	Adding bolt-on acquisitions to improve our plant network in Classical Heat Treatment and investing in larger acquisitions and adjacent technologies to grow Specialist Technologies.

In addition to the strategic icons above, we also link our markets and values via the following icons throughout the report.

Core values

Honesty and Transparency — We cultivate a culture of transparency where honesty and integrity are at the foundation of our business and our relationships. Trust is at the heart of everything we do.

Creating Value — We create value for our employees, customers and shareholders, and this is the very essence of Bodycote.

Respect and Responsibility — We behave individually and collectively with respect for each other, our stakeholders and the environment, conducting business responsibly and taking ownership of our actions.

Core markets

- Aerospace and Defence
- Automotive
- General Industrial (including Energy)

Our business model

Our business model ensures we are the supplier of choice for our customers' thermal processing needs.

We provide essential solutions to customers

Our thermal processing services simplify customer manufacturing by reducing their non-core activities. Bodycote adds value while reducing the impact on the environment by operating more efficiently and offering substitute Specialist Technologies processes, which are inherently lower emissions processes. Our global network of engineers and metallurgists collaborates with customers to solve complex challenges, enhance operational efficiencies and help improve product performance. Our services allow our customers' parts to last longer and reduce their environmental impact, supporting a more sustainable future.

Utilising our strategic competitive advantages

A global network

– A global network of more than 165 market-focused facilities in 22 countries. We have global expertise but are located near our customers.

See our global network on pages 4–5.

Unmatched expertise

– Recognised as the leader in the industry with the best metallurgists, engineers and technicians, Bodycote is ideally placed to provide solutions for customers, whatever their market or wherever in the world they may be.

See managing our people on pages 36–38.

– Unique opportunities for transferring knowledge, skills and technology across the network.

See our customer component journeys throughout the Strategic report.

Scale and investment

– Bodycote's scale enables continuous yet focused investment in the latest processes and the most efficient and environmentally friendly equipment.

See Chief Executive's review on pages 11–12.

Customer focus

– Building strong customer relationships through local service expertise; the scope of Bodycote's network enables us to specialise at individual locations and provide comprehensive backup for our customers more effectively than competitors.

– We secure service-specific agreements with our customers, giving protection from supply disruption and leveraging Bodycote's unique facility network.

See business review on pages 22–23.

We focus on service and quality

Service and expertise

– We provide highly efficient, cost-effective services to the highest quality standards through strategic investment in people and the latest technology, equipment and quality systems.

– Bodycote's extensive expertise means that projects can improve beyond customers' in-house capabilities, combining identification and provision of technical solutions to deliver value-adding material properties with a lower environmental impact and often at a lower cost.

Quality

– Bodycote's quality management systems, validated by major engineering OEMs, have been developed to meet the requirements of both international and national accrediting bodies.

– Our facilities hold industry and customer approvals appropriate to the services they offer and the markets they serve.

We create value for customers, Bodycote and our investors.

For our customers

– Value-adding services
– Global supplier meeting multiple processing needs
– Carbon reduction versus in-house operations, reducing the overall emissions from their value chain
– Cost reduction benefits versus in-house operations
– Access to the entire Bodycote knowledge base and expertise

For Bodycote

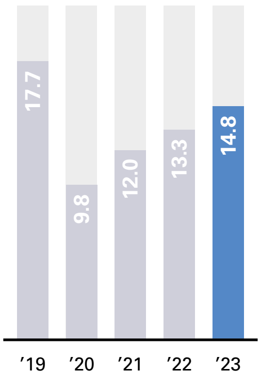
– Mutually beneficial customer relationships
– Vast customer base means Bodycote is not reliant on any one customer or market
– Ideally positioned to promote growth in targeted markets and selected technologies

For our investors

– Financially stable and sustainable business
– Solid growth drivers
– Superior return on investment
– Strong margins and cash flows
– Proactive approach to sustainability and climate change

Measuring progress
Our key performance indicators

Return on capital employed
(%)



Performance

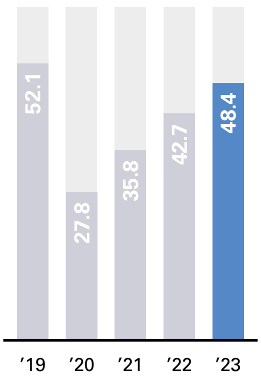
Return on capital employed increased by 1.5 percentage points during the year, up from 13.3% to 14.8%.

Definition

Headline operating profit[1] as a percentage of the average of the opening and closing capital employed.

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

Basic headline earnings per share
(pence)



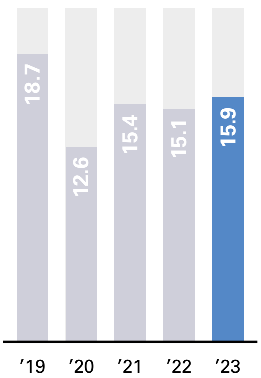
Performance

Basic headline earnings per share increased by 5.7p (13.3%) from 42.7p to 48.4p.

Definition

Basic headline earnings per share is defined on page 26.

Headline operating margin
(%)



Performance

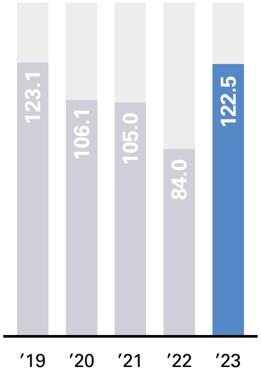
Headline operating margin increased by 0.8 percentage points during the year, from 15.1% to 15.9%. Headline operating profit increased by 14% from £112.2m to £127.6m, while revenue increased by 8% from £743.6m to £802.5m.

Definition

Headline operating profit as a percentage of revenue.

1 Defined on page 152.

Free cash flow
(£m)



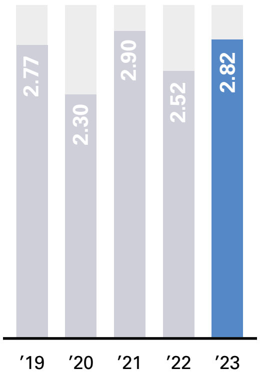
Performance

Free cash flow for the Group was £122.5m (2022: £84.0m). This was 96% of headline operating profit (2022: 75%).

Definition

Free cash flow is defined on page 26.

Total Reportable Incident Rate (TRIR)



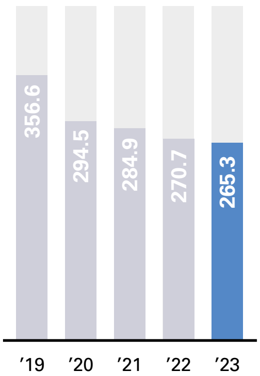
Performance

Bodycote works hard to improve safety and reduce workplace incidents and is committed to providing a safe environment for everyone who works at or visits our locations. The TRIR rate increased to 2.8 (2022: 2.5). Further details are included in the Sustainability section on page 37.

Definition

TRIR is defined as the number of lost time incidents, restricted work cases and medical treatment cases x 200,000 hours, divided by the total number of employee hours worked.

Carbon footprint[1]
($ktCO_2e$)



1 CO_2e emissions for 2019–2022 have been restated in line with the Group's emissions calculation methodology and using appropriate CO_2e conversion factors for the years presented here. See page 40 for details.

Performance

The Group's carbon footprint, absolute Scope 1 and Scope 2 CO_2e emissions, reduced by 2% year-on-year, from 270.7 to 265.3 $ktCO_2e$. Further details are included in the Sustainability report.

Definition

Carbon footprint is defined as the kilotonnes of CO_2 equivalent emissions. CO_2 equivalent emissions are calculated by taking electricity, fuel and process gas consumption data and multiplying by relevant conversion factors. Further details are included in the Sustainability report.

Our stakeholders
How and why we engage

Building strong, positive relationships with Bodycote's key stakeholders is essential to achieving long-term success.

Employees

Their interests
- Health and safety at work
- Employee development/engagement
- Wages, benefits and social packages
- Career opportunities
- Training opportunities
- Reputation of the organisation
- Sustainability
- Diversity and inclusion

Reason for engagement
Employee engagement is vital for our success. We work to create a diverse and inclusive workplace where every employee can reach their full potential. We engage with our people to ensure we meet their expectations and make the right business decisions. This helps us to retain and develop the best talent.

How we engage
- Employee Engagement Groups and Town Hall meetings
- Annual individual performance reviews
- Works councils and their representatives
- Intranet and communications, suggestion boxes and grievance mechanisms
- Annual Report and Accounts
- Environment, health and safety briefings and trainings
- Social media communications

Customers

Their interests
- Value-enhancing services and satisfaction of their needs
- Service performance, efficiency and quality
- Commitment to sustainability and emissions reduction
- Supply chain transparency

Reason for engagement
We collaborate with our customers to improve our customers' product characteristics and to develop a project pipeline.

How we engage
- Through ongoing customer relationship management
- Participation in industry forums and trade events
- Surveys of customer satisfaction
- Customer marketing communication programme, including utilisation of our corporate website
- Engaging with our customers helps us to understand their needs and identify opportunities and challenges

Investors

Their interests
- Financial performance and financial returns
- Effective capital allocations and dividends
- Commitment to sustainability and climate change
- Mergers and acquisitions
- Health and safety performance
- Governance and transparency
- Sustainability of performance

Reason for engagement
Continued access to capital is important to the long-term performance of our business. We work to ensure that our investors and analysts understand our strategy and performance well.

How we engage
- Annual General Meeting
- Annual Report and Accounts
- Results presentations and regular engagement with top shareholders
- Investor communications and our corporate website
- Meetings throughout the year with existing and prospective shareholders and banking partners
- Press releases (including regulatory announcements)
- Addressing enquiries regularly

Society/Communities

Their interests
- Positive social impact
- Employment opportunities
- Future talent pipeline
- Minimised environmental impact in the locations where we operate and on the global community
- Safety, health and environmental performance
- Individual employee volunteering
- Corporate website
- Local site community activities

Reason for engagement
Bodycote operates in a very large number of local communities across the world, and we aim to ensure that the business is seen as something that contributes positively to these communities and their inhabitants.

How we engage
- Employee engagement activities involving families
- Employee volunteering in local communities
- Local site community activities
- Our corporate website

A component journey
On solid foundations – Transmission shafts

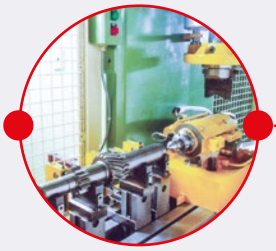
Transmission shafts form part of the drivetrain of all vehicles. In this example, we will look at how these hard working components are given a longer lifetime as part of powerful construction vehicles, such as excavators, through heat treatment and metal joining processes. Transmission shafts are an excellent example of thermal processing's contribution to value engineering. The Electron Beam Welding (EBW) process, in particular, allows the fabrication of a high performance component from two pieces, thereby avoiding machining from solid which is both wasteful and expensive.

The shafts begin life as high grade steel alloy forgings.

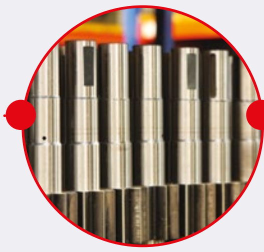
The forged steel part is then machined into its near net shaft shape and sent for heat treatment.

Shafts requiring an EBW operation after heat treatment are first selectively chemically coated to prevent carbon penetration; this will ensure a clean electron beam weld at a later stage.

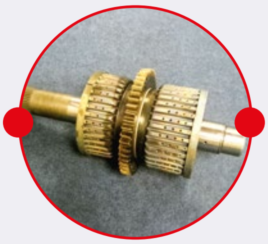
The shafts require carburising to increase their wear resistance and impart high hardness properties. They are then quenched and tempered to remove internal stresses.



The parts undergo automatic shaft straightening to correct any distortion caused by high processing temperatures.



The shafts are machined again to achieve final engineering dimensions.



The shafts need assembly with their gear or drum using EBW. The parts are ultrasonically cleaned and measured to ensure no contamination of the parts during the EBW vacuum process which fuses the parent metal of the parts together.

End application,
construction vehicles such as an excavator.

Denotes the parts of the component journey undertaken by Bodycote

Compliance with Directors' duties
Section 172 statement

Strategy

In determining the Group's strategic direction, and the sustainability of our business model, the Board is conscious of its collective responsibilities to all stakeholders, seeking to ensure that corporate and management structures are in place for our strategy to be implemented effectively.

At each Board meeting, progress against our strategic priorities and the changing shape of the business portfolio is reviewed. This approach, together with the Board's approval of the Company strategy, helps the Board to promote the long-term success of the Group. Board decisions are ultimately taken against the backdrop of what it considers to be in the best interest of the long-term financial success of the Company and each of the Group's stakeholders. The Company's strong underlying financial position enables us to pursue new opportunities for the Group within our disciplined financial framework.

A core pillar of the Group's strategy is growth via selected acquisitions.

Performance

As an organisation, we endeavour to drive performance through the communication of clear objectives and skills development.

We are committed to continuous improvement and the Board regularly reviews and monitors the Group's safety, reliability and environmental performance, with the aim of making Bodycote safer for our entire workforce and minimising our impact on climate change.

In 2023, the Group recorded a TRIR of 2.8 (2022: 2.5). There was an increase in the number of incidents relating to the manual handling of parts, slips, trips and falls, and lifting operations. We remain focused on delivering targeted and timely employee engagement to tackle the occurrence of these sorts of incidents. The safety, health and wellbeing of our employees will always be our highest priority. This is important to our workforce and local communities, while strong operational availability and reliability is crucial to our partners and customers.

The Board's oversight ensures the Group continues to focus on maintaining financial discipline and delivering strong earnings, cash flow and returns to shareholders.

People

As a service business, it is our people, their attitude, capabilities and skills, who are the key to our success. Our people help us maintain our strong reputation for high standards of business conduct, which is fundamental in delivering our purpose to support our customers in producing superior components. We are committed to ensuring we have safe and effective working environments, which enable everyone to perform to their true potential.

Bodycote operates divisional Employee Engagement Groups which are chaired by a Non-Executive Director. The feedback from these forums is reported to the Board, with Executive Directors charged with addressing any particular items that arise. In 2023 these forums were held virtually. Feedback was generally positive with no material concerns expressed by employees during the year.

Governance

The Board believes that strong governance is essential to the success of our business and recognises that the Group's long-term success depends on a commitment to good governance standards. The Board sets the tone of the Company with regard to our governance framework.

Our governance framework underpins good governance practices and enables the Board to provide effective stewardship of the Company. It drives the highest levels of business standards and best practices, aligning these with Bodycote's business purpose, values, strategy and culture.

The Board assesses and monitors culture and looks to obtain useful insight through effective dialogue with our key stakeholders, taking feedback into account in the Board's decision-making processes.

The Board understands the benefits of annual performance evaluations and, in 2023, undertook an internal evaluation process. The Board discussed the findings of this review, with recommendations including the review of longer-term strategy, applying greater focus to ESG topics and their potential role in strategy and additional emphasis on succession planning. An external evaluation process will be conducted during 2024.

Relevant section 172 factors

Decision-making

The Board
(including delegation of authority)

Decision-making

Engagement

Employees

The knowledge, capabilities, expertise and skills of our employees are a major part of the Group's intangible value. We work to attract, develop and retain the best talent, equipped with the right skills for the future. Our people have a crucial role in delivering against our strategy and creating value. Our remuneration policies have been designed to support the Group's strategy, in alignment with the Company's purpose, values and culture to promote the long-term success of the organisation.

£308m
in annual staff costs

Customers

We provide our services to the aerospace and defence, automotive and general industrial markets. Working closely with our customers, and seeking their feedback, we are better able to understand their evolving needs so we can continually improve and adapt to meet them, finding solutions to create value and improve their overall experience.

>40,000
customers worldwide

Investors

Delivering an attractive return is a core priority for the Board. Our investment proposition builds upon our strengths to create value for shareholders, with capital rewarded through dividends and share price increases. We communicate progress on our financial and non-financial plans to cultivate the support of our investors, analysts, banks and proxy voting agencies.

£41m
in dividends paid in the year

Society/Communities

We are committed to building positive relationships with the communities where we operate.

We consult through our plant network to better understand and manage the social impacts of our business and gain valuable perspectives on the ways in which our activities could impact the local community or environment.

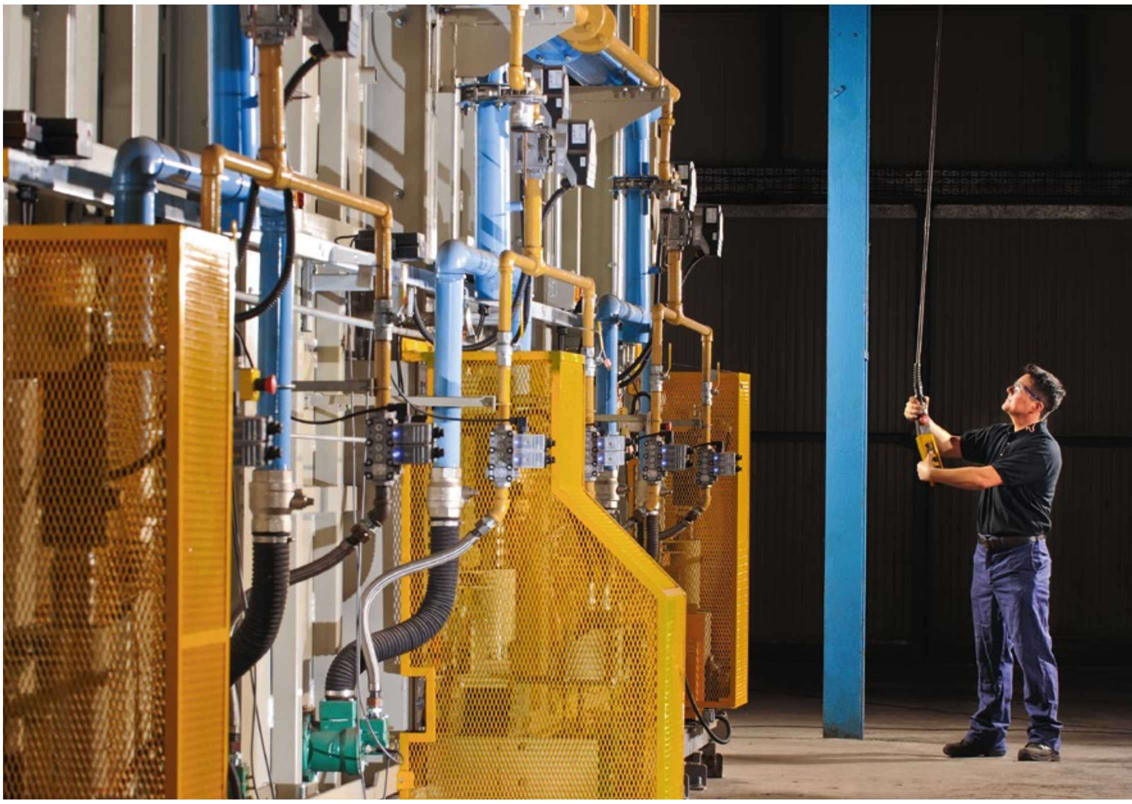
>165
facilities in 22 countries

Section 172 cross-reference

The Board, in line with its duties under section 172 of the Companies Act 2006, must act in the way it considers, in good faith, would most likely promote the success of the Company for the benefit of shareholders. Our Directors must also have regard to the likely long-term consequences of their decisions, and the impact that these may have on the Company's key stakeholders.

We believe that by understanding what matters to our key stakeholders, we are better able to secure long-term success for the Group. We place a strong emphasis on proactive, transparent, and open engagement with our key stakeholder groups, which in turn promotes mutually beneficial relationships and value.

Further information about how these duties have been applied can be found throughout this Annual Report.



Section 172 duties	Key examples	Page
Consequences of decisions in the long-term	Strategic progress	13, 15-17
	Board activities in the year	20, 57, 59
	Financial report	25-27
	Going concern and viability statements	27, 33
	Principal risks	28-32
Interests of employees	Chair and Chief Executive statements	10-12
	Our stakeholders	18
	Sustainability report	35-42
	Board activities in the year	18, 20, 62
Fostering business relationships with suppliers, customers and others	Our stakeholders	10-12, 18
	Sustainability report	35-42
	Board activities in the year	58-61
Impact of operations on the community and the environment	Sustainability report (including TCFD report)	35-52
Maintaining high standards of business conduct	Sustainability report	35-42
	Corporate governance statement	56
Acting fairly between members	Shareholder engagement	18-20

The table on page 18 sets out our key stakeholder groups and how they were engaged with directly and indirectly by the Board throughout the year.

Business review

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

Our ADE business focuses on aerospace, defence and energy customers, who typically operate globally. Our AGI business focuses on automotive and general industrial customers. These include many multinational companies that tend to typically operate on a regionally focused basis and numerous medium-sized and smaller businesses, all of which are important to Bodycote. Much of the AGI business is locally oriented.

Strategically we have focused on building customer relationships to enable our participation in long-term programmes. Not only do we have a competitive advantage as a result of our scale and capabilities, but our global reach allows customers to work with us on multiple projects simultaneously, making us a valued business partner.

The ADE business

Bodycote services all of the major manufacturers in the aerospace industry as well as a large portion of their supply chains.

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

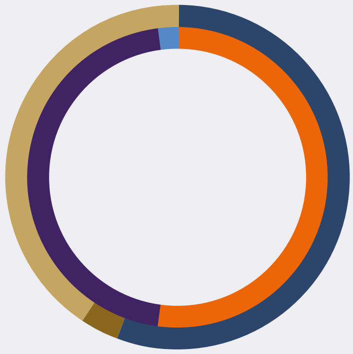
Revenue in 2023 was £355.5m, an increase of 14% (14% at actual exchange rates) with strong growth in civil aerospace, oil & gas and medical revenue.

Headline operating profit increased to £69.5m (2022: £50.8m), and headline operating margin increased to 19.5% (2022: 16.2%) and 21.0% excluding the revenue effect of energy-related surcharges (2022: 16.9%), reflecting higher aerospace volumes as well as improved pricing and operational performance in our Surface Technology business. Statutory operating profit increased to £63.1m (2022: £44.0m).

We spent £13.4m on expansionary capital expenditure, with significant investment in capacity growth for the North American Specialist Technologies business.

Return on capital employed increased to 15.5% (2022: 11.9%) as a result of the improved profitability.

ADE revenue by market sector and geography
£m



Market sector	
Aerospace and Defence	**197.9**
Automotive	**13.2**
General Industrial (including energy)	**144.4**
Total	**355.5**

Geography	
Western Europe	**185.1**
North America	**162.8**
Emerging Markets	**7.6**
Total	**355.5**

The AGI business

Bodycote has a long and successful history of servicing its wide-ranging customer base.

Our extensive network of facilities enables the business to offer customers the broadest range of capability and security of supply. Each of our AGI facilities works with customers to respond with the expertise and appropriate service level required, no matter the size of the customer's demand.

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

Revenue was £447.0m, an increase of 4% on the prior year (4% at actual exchange rates). There was good growth in the first half of the year, led by automotive sales in Eastern Europe, with a softening in the second half due to weaker industrial end-markets.

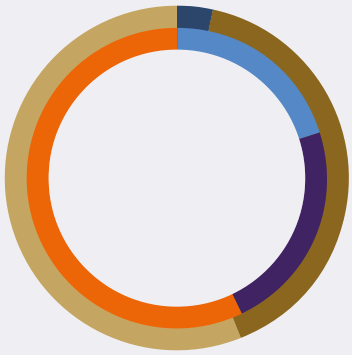
Headline operating profit was £79.3m (2022: £80.8m), and headline operating margin declined slightly to 17.7% (2022: 18.7%) and 19.6% excluding the revenue effect of energy-related surcharges (2022: 20.4%), impacted by the low volume levels in the second half of the year. Statutory operating profit declined to £77.6m (2022: £78.2m).

We spent £14.4m on expansionary capital expenditure, with ongoing expansion in Emerging Markets, particularly in Eastern Europe and China.

Return on capital employed was broadly stable at 17.8% (2022: 18.2%).

AGI revenue by market sector and geography

£m



Market sector	
Aerospace and Defence	16.0
Automotive	181.4
General Industrial (including energy)	249.6
Total	**447.0**

Geography	
Western Europe	254.6
North America	102.4
Emerging Markets	90.0
Total	**447.0**

A component journey
Rock solid – Drill bits

Erosion in drill bits presents a serious challenge in mining when productivity is crucial. Rotary blasthole drills operate in variable ground formations. Bodycote's carburising treatment increases the wear resistance of the drill bit parts, thus extending product life and operating efficiencies.

The drill bit components begin life as casehardening steel forgings.

The bit legs and rollers are machined to achieve the design required for best performance through difficult terrain.

A 3D printed insert is applied as masking to ensure that only the unpainted areas will be treated in the carburising process.

The parts undergo a painting operation to prevent hardening the sections which require better ductility.

Carburising increases the surface hardness, or wear resistance, in the drill bit. Oil quench immediately follows.

Before returning the parts, Bodycote inspects and performs quality checks for hardness.

End application, **rotary blasthole drilling rigs.**

Denotes the parts of the component journey undertaken by Bodycote

Chief Financial Officer's report

A year of improved margins and strong cash generation, which further strengthened the Group's financial position.

B. Fidler
Chief Financial Officer

Financial overview

	2023 £m	2022 £m
Revenue	**802.5**	743.6
Headline operating profit	**127.6**	112.2
Amortisation of acquired intangible assets	**(8.1)**	(9.3)
Acquisition costs	**(0.3)**	(0.9)
Operating profit	**119.2**	102.0
Net finance charge	**(7.5)**	(6.7)
Profit before taxation	**111.7**	95.3
Taxation charge	**(24.9)**	(21.0)
Profit for the year	**86.8**	74.3

Group revenue increased to £802.5m, growth of 7.9% at actual exchange rates and 8.3% at constant currency.

Headline operating profit for the year increased 13.7% to £127.6m (2022: £112.2m), representing growth of 16.7% at constant currency. This saw the Group deliver further improvement in headline operating margin to 15.9% (2022: 15.1%) reflecting the benefit of increased volumes, pricing and improved operational efficiencies. Statutory operating profit increased to £119.2m (2022: £102.0m).

The Group continued to recover cost inflation during the year through a combination of pass through energy surcharges and sustainable price increases. Excluding the revenue impact of energy surcharges, headline operating margins rose by 120 bps to 17.3% (2022: 16.1%).

Chief Financial Officer's report continued

Net finance charge

The net finance charge increased modestly to £7.5m (2022: £6.7m), analysed in the table below:

	2023 £m	2022 £m
Interest on loans and bank overdrafts	**(2.7)**	(2.3)
Interest on lease and pension liabilities	**(2.7)**	(1.8)
Financing and bank charges	**(2.9)**	(3.0)
Total finance charge	**(8.3)**	(7.1)
Interest received	**0.8**	0.4
Net finance charge	**(7.5)**	(6.7)

The increase in interest charges during the year was driven primarily by higher underlying interest rates on the Revolving Credit Facility drawings and on leases. These were partly offset by an increase in interest received on cash deposits during the year.

Profit before taxation

	2023 £m	2022 £m
Headline profit before taxation	**120.1**	105.5
Amortisation of acquired intangibles	**(8.1)**	(9.3)
Acquisition costs	**(0.3)**	(0.9)
Profit before taxation	**111.7**	95.3

Headline profit before tax increased by 13.8% to £120.1m (2022: £105.5m), growth of 17.2% at constant currency. Statutory profit before taxation increased to £111.7m (2022: £95.3m).

Taxation

The tax charge for the year was £24.9m (2022: £21.0m). The headline tax rate for the Group was 22.5% (2022: 22.3%), before accounting for amortisation of acquired intangibles, acquisition costs and exceptional items. This was in line with our expectations. The Group's overall tax rate reflects the blended average of the tax rates in the jurisdictions around the world in which the Group trades and generates profit. Looking ahead, the headline tax rate is expected to moderately increase over the next few years mainly due to growth in the US business and an increase in the UK corporate tax rate.

The effective statutory tax rate was 22.3% (2022: 22.1%). Provisions of £26.4m (2022: £28.1m) are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Note 6 of the consolidated financial statements provides more information.

The OECD Pillar II proposals for a global minimum tax rate are applicable to the Group from 1 January 2024. The changes are not expected to have a material impact on the Group's tax charge in 2024.

Earnings per share

Basic headline earnings per share rose 13.3% to 48.4p (2022: 42.7p) as a result of the higher headline operating profit. Basic earnings per share for the year increased to 45.1p (2022: 38.6p). Note 8 of the consolidated financial statements provides further details of the basis of these calculations.

	2023 £m	2022 £m
Profit before taxation	**111.7**	95.3
Taxation charge	**(24.9)**	(21.0)
Profit for the year	**86.8**	74.3
Basic headline EPS	**48.4p**	42.7p
Basic EPS	**45.1p**	38.6p

Return on capital employed

Return on capital employed rose by 150 bps in the year to 14.8% from 13.3% in 2022. The increase reflected improvement in headline operating profit together with the Group's ongoing discipline over capital expenditure projects, focused on delivering the Group's strategy and driving attractive returns.

Cash flow

	2023 £m	2022 £m
Headline operating profit	**127.6**	112.2
Depreciation and amortisation	**74.0**	74.9
Other, including impairment and profit on disposal of PPE	**(2.7)**	3.0
Headline EBITDA[1]	**198.9**	190.1
Net maintenance capital expenditure	**(57.7)**	(52.2)
Net working capital movement	**(1.7)**	(25.3)
Headline operating cash flow	**139.5**	112.6
Restructuring	**(1.6)**	(7.4)
Financing costs, net	**(6.4)**	(5.8)
Tax, net	**(9.0)**	(15.4)
Free cash flow	**122.5**	84.0
Expansionary capital expenditure	**(27.8)**	(22.1)
Ordinary dividend	**(40.6)**	(38.5)
Acquisition spend	**(0.1)**	(0.9)
Own shares purchased less SBP and others	**(8.1)**	1.7
Reduction in net debt	**45.9**	24.2
Opening net debt	**(99.4)**	(116.4)
Foreign exchange movements	**1.8**	(7.2)
Closing net debt	**(51.7)**	(99.4)
Lease liabilities	**64.3**	66.0
Net cash/(debt) excluding lease liabilities	**12.6**	(33.4)

1 Refer to page 153 of the Annual Report for a reconciliation of operating profit to Headline EBITDA.

Improving cash flow conversion has been a significant focus during 2023 and reflecting this, cash generation improved materially in the year. Headline operating cash flow rose to £139.5m (2022: £112.6m), as a result of higher headline operating profit and improved working capital control through better receivables collection. Headline operating cash flow conversion improved to 109% (2022: 100%). The statutory measure, net cash from operating activities, rose to £191.6m (2022: £142.9m).

The Group generated a strong increase in free cash flow to £122.5m (2022: £84.0m) for the year with free cash flow conversion of 96% compared to 75% for 2022. Net tax payments in 2023 were £9.0m (2022: £15.4m) with the reduction reflecting receipt of tax refunds relating to prior years.

Closing net debt was £51.7m (2022: £99.4m). Excluding lease liabilities, the Group moved from a net debt position in the prior year of £33.4m to a net cash position of £12.6m, an improvement of £46.0m. This improved balance sheet position was achieved after paying £40.6m of dividends to shareholders and deploying £13.2m for the purchase of 2 million shares for the Employee Benefit Trust to satisfy future share-based payments under the Group's share incentive schemes (at an average price of £6.61).

Going forwards from 2024, the Group will amend its definition for both headline operating cash flow and free cash flow to include expansionary capital expenditure as well as maintenance capital expenditure. This will better align the Group with normal market practice.

Expansionary capital expenditure

The Group invested £27.8m (2022: £22.1m) in expansionary capital projects. Over 80% of the expansionary spend was deployed in our strategic focus areas of Specialist Technologies, Emerging Markets, civil aerospace and electric vehicles.

Total capital expenditure in the year (including both maintenance and expansionary) was £85.5m (2022: £74.3m). The Group remains committed to maintaining its assets to the highest standards of quality and safety.

Dividend and dividend policy

The Group has a long and stable track record of dividend growth and aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings on a 'normalised' multi-year basis.

In line with this policy, the Board has recommended a final dividend of 16.0p (2022: 14.9p), bringing the full year dividend to 22.7p (2022: 21.3p). The interim dividend of 6.7p, approved by the Board on 27 July 2023, was paid on 10 November 2023 to shareholders on the register at the close of business on 6 October 2023. Subject to shareholder approval at the 2024 AGM, the final dividend will be paid on 6 June 2024 to shareholders on the register at the close of business on 26 April 2024.

Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings and leases. The Group's funding policy aims to ensure continuity of financing at a reasonable cost, based on committed and uncommitted facilities and loans to be procured from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and currently deems this to be the most effective means of long-term funding. At 31 December 2023, the facility was drawn as follows:

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
Revolving Credit Facility	27 May 2027	250.9	32.1	218.8

In addition to the Revolving Credit Facility, the Group also has access to an additional committed facility of £9.7m (£0.2m drawn) bringing total committed facility headroom to £228.3m at 31 December 2023 (2022: £185.8m).

Post balance sheet events – acquisition and share buyback

Bodycote announced completion of the acquisition of Lake City in January 2024 for total gross consideration of £52.2m on a cash and debt free basis, which was settled through the Group's existing cash balances and borrowing facilities.

Reflecting the Group's strong financial position and demonstrating a disciplined and balanced approach to capital allocation, Bodycote also announced in January 2024 its intention to launch a share buyback programme of up to £60m. This will commence on 15 March 2024.

Alternative performance measures

Bodycote uses alternative performance measures such as revenue excluding surcharges, organic revenue, headline operating profit, headline operating margin, headline operating margin excluding surcharge revenue, basic headline earnings per share, headline profit before taxation, headline operating cash flow, headline operating cash conversion, free cash flow, free cash flow conversion, net debt and return on capital employed together with current measures restated at constant currency. The Directors believe that these assist users of the financial statements to gain a clearer understanding of the trading performance of the business, allowing the impact of restructuring and reorganisation activities and amortisation of acquired intangible assets to be identified separately. These alternative performance measures can be found on page 152.

Going concern

As described on page 104 of the consolidated financial statements, the Directors have formed a judgement, at the time of approving the financial statements, that there are no material uncertainties that cast doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. In making this judgement, they have considered the impacts of potential severe but plausible consequences arising from the Group's activities. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

B. Fidler
Chief Financial Officer
15 March 2024

Principal risks and uncertainties

The Board is responsible for the Group's risk management, determining the Group's risk appetite and ensuring that the Group risk process and systems of internal control are robust, continuously monitored and evolve to address changing business conditions and threats. The Board also provides direction and sets the tone on the importance of risk management. The review of financial risk has been delegated to the Audit Committee. The Executive Committee has taken ownership of specific business risks. Each risk is evaluated based on its likelihood of occurrence and severity of impact on the Group's strategy. Risks are then assessed at both a gross and net level, i.e. before and after the effect of mitigation. This approach allows the identification and consistent evaluation of significant and principal risks, as well as consideration of the effect of current lines of defence in mitigation. Internal audit provides independent assurance to help ensure that the Group's risk management, governance and internal control processes are operating effectively. The Executive Committee also assists in the identification and evaluation of principal risks and controls as part of the Group's risk assessment and risk management processes.

An update is provided at every Executive and Audit Committee meeting on the Group's risk activities. A comprehensive review of the Group's current and emerging risks is also presented to, and discussed with, the Board in June and December. The Board is satisfied that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2023 and a robust assessment of both the Group's principal and emerging risks has been undertaken.

Details of the Group's financial risks (liquidity, credit, interest rate and currency), which are managed by the Group's treasury function, are provided in note 18 to the consolidated financial statements. The mitigating activities described in this report will 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.

Key events in the year

Inflation has remained at a high level leading to further increases in certain of the Group's input costs, which have been successfully recovered through pricing. The Ukraine war continues and geopolitical tensions intensified in certain regions of the Middle East during the second half of the year. Bodycote has no direct exposure to any of the countries involved and has no facilities, customers, or suppliers in these territories.

There has been a continued increase in interest rates following the aggressive rate rises implemented during 2022 by numerous central banks to curb inflation. In the last quarter of 2023, monetary policy interventions appear to have eased inflation rates, with many central banks indicating that further rate hikes may not be required. Bodycote has continued to manage inflationary cost pressures well through annual price increases to recover rising labour and other costs and the energy surcharge programme, implemented in 2022, which has enabled recovery of energy cost inflation in the year.

Emerging risk

Bodycote's emerging risk identification process is based on horizon scanning. Each emerging risk is assessed based on its potential impact on the Group on a high, medium or low rating across three time horizons: 0-2 years; 2-5 years; and more than five years.

This process takes place alongside the annual risk review, with emerging risks being considered in facilitated risk workshops conducted with the Executive Committee. This review helps to ensure that any new and emerging risks are appropriately identified and ensures close monitoring of any emerging risks to ensure appropriate mitigating actions are undertaken.

The Board has highlighted geopolitical risk, specifically, the unpredictable geopolitical landscape and the uncertainty over future global events as an emerging risk. If tensions in the geopolitical landscape result in the implementation of aggressive trade barriers that reduce the movement of goods, this could result in customers shortening their supply chains and moving them closer to their main production locations. The emerging risk is mitigated by the fact that Bodycote has a global network of sites which allow us to service customers from multiple locations, such that the residual risk exposure is not considered significant.

No additional emerging risks were identified in 2023. The risk of global pandemics and their impact on both supply chain issues and operations are no longer considered as either an emerging nor principal risk for the Group. Bodycote has demonstrated the ability to respond to and manage its cost base well through the COVID-19 pandemic. Additionally, the following two risks are no longer considered as emerging and are now included in our principal risks:

1. the acceleration in the transition to electric vehicles (markets and customers); and
2. continued environmental activism and increased focus from both regulators and the investment community around climate change (environment).

The following tables set out a description of the Group's principal risks and related mitigation measures, as agreed by the Board, and describe how these principal risks may affect Bodycote's ability to deliver its strategy. The risk rating sets out the direction of change from 2022. Refer to page 14 for further information on our strategic priorities.

Risk description	Risk rating	Mitigation and control	Relevance to strategic priorities
Market and customer risks			
Markets Bodycote operates in 22 countries. There is a risk that changes in both macroeconomic trends and the economic environment will impact the end-markets that the Group serves, and, consequently, the amount of parts that need to be treated. These events may result in supply chain disruptions, rising energy prices and labour shortages which can escalate inflationary pressure on earnings if not passed on to customers. The rate of transition from ICE to Electric Vehicles presents both a market risk and opportunity to the Group. Bodycote needs to maintain progress in building a strong market position in the Electric Vehicle supply chain.	**Stable** The high proportion of short-term fixed costs in the business means that a movement in sales can have a significant impact on the Group's profitability. High levels of cost inflation exert pressure on the Group's profitability if it is not successfully passed on to customers. The Electric Vehicle market continues to grow strongly, driven by the general focus on reducing global GHG emissions resulting in a shift in consumer spending.	– Bodycote's presence in 22 countries servicing more than 40,000 customers across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility and component life cycles. – Bodycote has demonstrated the ability to manage its cost structure in response to revenue shocks, supply chain issues and significant cost inflation, protecting profitability and returns. – Restructuring activities in prior years have been aimed at successfully adapting the Group's facilities footprint to respond to trends in end-markets in order to mitigate pressure on earnings. Bodycote has a long track record of passing on cost inflation to its customers and has acted quickly in the past to ensure that the surge in cost inflation is offset by energy surcharges and price increases to our customers. – Bodycote continues to focus on increasing its market share in the Electric Vehicle market with further new contract awards during the year.	1 2 3 4 5
Competitor action The threat of new and existing competitors into one or more of the Group's Specialist Technologies.	**Stable** A number of small and midsized HIP vessels have been installed by competitors, but investment in large HIP vessels has been limited to date. The entrance of new competitors could result in the erosion of market share with a loss of revenue and profitability.	– The close control of proprietary knowledge. – Expansion in the Group's offerings to maintain the position as supplier of choice. – A focus on customer service to ensure that satisfied customers have no cause to seek alternative suppliers. – There are high financial barriers to entry.	2
Corporate and community risks			
Health and safety The inherent nature of Bodycote's activities and the equipment operated presents safety and health risks. 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.	**Stable** Bodycote is committed to providing a safe work environment for its employees.	– Well established Group-wide health and safety policies ensure continuous improvement of safety standards, monitoring and investigation of all events. – ISO 45001 and ISO 14001 aligned EHS management systems overseen by the Group Head of EHS and implemented with support of divisional environment, 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.	1

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Principal risks and uncertainties continued

Risk description	Risk rating	Mitigation and control	Relevance to strategic priorities
Environment			
Climate change As a thermal processing company, the Group's carbon reduction strategy is of particular importance to stakeholders, both as a potential risk and a commercial opportunity. Climate change poses a range of potential risks, arising from current and emerging regulation, technology, legal, market, reputational, and physical climate risk drivers, which could lead to business disruption, health risks, loss of reputation and financial costs.	**Increasing** Climate change risk continues to rise in prominence in light of stakeholders' expectations, changing regulations and reporting requirements, and potential physical weather-related impacts.	– Centre of expertise established to drive climate-related activity. Risk and Sustainability Committee supports execution of strategy. – SBTi-validated Scope 1 and Scope 2 emissions reduction target – 28% reduction by 2030. – A climate scenario process established to support the identification and mitigation of potential risks (see the TCFD report on pages 43 to 52). – Climate-related stakeholder communications, in alignment with internationally recognised standards. – Adherence to the ISO 14001 standard for environmental impact management (98% of the Group's facilities are accredited). Remediation of contaminated sites continues.	1
Operational risks			
Service quality The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification within an agreed time period. There is a risk that Bodycote fails to meet the needs of customers in terms of quality, delivery, innovation and problem-solving.	**Stable** The risk of poor quality, poor service levels or non-compliance with agreed specifications can cause serious long-term damage to Bodycote's reputation with financial consequences such as customer loss or the cost of damages or litigation	– Bodycote has stringent quality systems in place managed by qualified staff. – Quality systems and processes are operated within our plants with strong oversight by our divisional quality teams. – Where necessary, our plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and IATF 16949. – Each facility undergoes regular audits by quality staff, accreditation bodies and customers.	5
Contract review There is risk that parts are not treated according to contractually agreed specification or additional customers' amendments.	**Stable** Non-compliance with agreed specifications or failure to update the process at a plant to comply with specification changes requested by the customer may potentially lead to parts being rejected or failing, which could result in material claims against Bodycote with significant reputational damage, financial penalties and a loss of future revenue.	– Each facility has a robust quality management system with regular audits by quality staff, accreditation bodies and customers. – Bodycote carefully negotiates terms and conditions associated with the supply of services to its customers, carefully managing potential liabilities. – Certain potential damages resulting from this risk are fully or partially covered through the Group's various insurance policies.	5

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Risk description	Risk rating	Mitigation and control	Relevance to strategic priorities
Operational risks continued			
Loss of key accreditations Bodycote is required to maintain specific accreditations in order to provide heat treatment and thermal processing services on parts for certain customers. Failing to keep such accreditations would prevent Bodycote from delivering services to customers in these markets.	**Stable** Should a number of facilities fail to maintain their accreditations, customers could potentially move work to a competitor resulting in a loss of revenue to Bodycote.	– Each facility has a robust quality management system with regular audits by quality staff, accreditation bodies and customers. – Should a facility fail an accreditations audit a remediation plan to fix any non-conformities is implemented. – Bodycote has a global network of more than 165 facilities enabling work to be transferred to another accredited facility.	5
Major disruption at a facility Bodycote's facilities are subject to man-made and natural hazards that could lead to their potential closure. Some business processes are inherently risky and there is a possibility that a major incident, such as a fire or utility outage, could occur. In addition, some facilities are exposed to natural hazards, such as earthquakes, flooding and storms.	**Stable** Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.	– Business continuity plans are in place for all plants. – Independent insurer physical inspections of facilities to assess hazard and business interruption risks have been conducted during the year. – Insurance cover, including business interruption cover. – Scheduled equipment maintenance and inspections. – Bodycote's global network of more than 165 facilities creates a framework to provide backup capability if required.	4 5
Machine downtime Bodycote relies upon its operational equipment, across its network of plants, being available to meet the requirements of its customers. Therefore unexpected equipment downtime would potentially affect Bodycote's ability to service its customers. Moreover, without an effective preventative maintenance programme there is a risk that equipment redundancy plans would need to be built into facility management in order to cope with equipment breakdowns.	**Stable** Significant periods of equipment downtime would impact customer service and revenue.	– Preventative maintenance programmes mitigate the risk of downtime occurrence associated with major breakdowns ensuring business continuity and customer satisfaction. – Spare parts replenishment programme ensures efficient maintenance activities occur according to plan. – Bodycote's global network of facilities with robust business continuity plans help to minimise the impact of equipment downtime on customer service. If required, customer work can be transferred to another facility within the network.	4 5

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Principal risks and uncertainties continued

Risk description	Risk rating	Mitigation and control	Relevance to strategic priorities
Information technology and cybersecurity The Group relies upon its IT systems, including a range of ERP solutions, to manage its operations. IT systems interruptions could lead to business process disruption and interruption to key business services. A cyber attack could result in compromised data, theft, manipulation or destruction of confidential and sensitive information and severely disrupt business operations.	**Increasing** There is an increasing global risk of sophisticated cyber attacks, including ransomware and phishing with the complexity of these attacks rising. A significant failure of IT systems as a result of external factors, such as a cyber attack, could disrupt service to our customers, and result in reputational and financial loss.	– The Group has robust governance processes to ensure that IT projects are adequately reviewed and approved to ensure that they are consistent with the Group's IT strategy. – Increased focus on IT security management processes, including regular testing and threat assessments. – Increased training and awareness programmes are provided for our users. – Bodycote maintains a focus on improving information security and has well-protected data centres supported by effective business recovery planning and data backup procedures.	5
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 modern slavery, anti-bribery and anti-competition legislation, employment law and import and export controls. The Group also has to comply with taxation legislation and the advantages associated with the UK's controlled foreign companies that the Group has employed in its financing structures.	**Stable** Failure to comply with current and new 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 Human Resources policies and the Group Code of Conduct alongside training and awareness programmes. – The 'Open Door Line' whistleblower facility operated by a third-party. – Engagement of specialists (lawyers, accountants, tax specialists, trade compliance consultants and freight forwarders) to support Bodycote at local, divisional and Group levels. – Regular audits of the effectiveness of implemented procedures. – Regular assessment of the changes required to comply with the UK Corporate Governance Code and related potential impacts on the Group.	5

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Viability statement

In preparing this statement of viability, the Directors have considered the prospects of the Group over the five-year period immediately following the 2023 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (on page 27). The Directors have determined that a five-year period is an appropriate period over which the business could be restructured in the event that any material changes to demand for the Group's services transpired. This period is also consistent with that used for the Group's planning process. As a result, the Board determined that a period of longer than five years would not be meaningful for the purpose of concluding on longer term viability.

The base case forecasts which underpin this assessment are based on the Board approved 2024 budget and the Board approved five-year strategic plan. These reflect the acquisition of Lake City and the £60m share buy-back, which is assumed to be completed over a 12-month period ending March 2025. These projections reflect ongoing growth in the Group's end markets over the forecast period. The performance of the Group over the period of the assessment has then been assessed against the covenants that exist in the Group's Revolving Credit Facility, as explained on page 27, and the Group's liquidity.

In conducting the review of the Group's prospects, the Directors assessed the five-year plan alongside the Group's current position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 1 to 52). This assessment included consideration of the principal risks on the business model and on future performance, liquidity and solvency and was mindful of the limited forward visibility that the Group has as it carries limited order backlog. The Directors' viability assessment included a review of the sensitivity analysis performed on the five-year financial forecasts. The assessment included two scenarios designed to stress-test the Group's base case forecasts, which were as follows:

- A plausible downside scenario which assumes a slow-down in the global economy, resulting in a fall in 2024 revenues of 12% versus 2023, and a limited revenue CAGR of only 2% over the five-year period, representing a 20% reduction in revenues versus the base case over this period. This downside takes account of short-term negative shock events which are intentionally more severe than those used in the Group's goodwill impairment assessment (set out on pages 120-122).
- A break-case scenario designed to establish the decline in revenues required to result in the Group's liquidity being exhausted or loan covenants breached. This scenario shows that 2024 revenues would need to fall 30% below 2023 levels, and demonstrate zero growth thereafter, before the Group's leverage ratio covenant is breached at the end of the five-year review period. Whilst this scenario is not considered remotely plausible, it was designed to stress-test the financial resilience of the Group.

In the plausible downside scenario, capital expenditure was reduced in 2024 versus the base case and dividends were maintained at the same level as 2023. In the break-case scenario capital expenditure was reduced in all years, reflecting the reduced maintenance capital expenditure required in that scenario due to sustained lower equipment utilisation, and the lower levels of growth capital expenditure that would be required in this scenario. In addition, dividends were reduced significantly. No mitigating actions such as restructuring were included.

In the base case and plausible downside scenario, there were no breaches to the Group's covenants, and substantial headroom was maintained.

In making this viability statement the Directors considered the other mitigating actions (including, but not limited to, cost reduction initiatives, further discretionary capital expenditure reduction and the reduction of dividends) that may be taken by the Group in the event that the principal risks of the company become realised but note that none of these actions were modelled in performing the assessment since the Group maintained substantial headroom in both scenarios. The Directors also took into consideration the Group's financial position at 31 December 2023, with available liquidity of £273.5m and a history of strong and resilient cash flow generation.

Uncommitted facilities were not taken into account in performing the assessment. It is noted that the Group's RCF matures in May 2027, before the end of the assessment period, however the Directors have a reasonable belief that, based on previous experience and ongoing supportive discussions with our lenders, should any debt facility be required, the RCF will be able to be refinanced or extended.

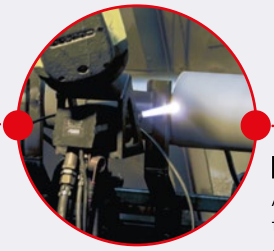
The Directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2028.

A component journey
Touch down – Landing gear

Safety critical landing gear must perform without fault every time the aircraft flies. A combination of thermal processing techniques is used to ensure the material properties are optimised and to protect it during its working life. Traditionally, the landing gear has been surface treated using hard chrome plate, but this is now being superseded by more environmentally friendly thermal spray processes, which provide extreme wear and corrosion resistance.

Alloy Ti billet is forged to shape.

The part is heat treated to desired properties.



A thermally sprayed surface treatment is applied to replace hard chrome plate for improved wear and corrosion resistance.

The component is surface machined using diamond tools due to the extreme hardness of the surface finish.

End application, **aircraft.**

Denotes the parts of the component journey undertaken by Bodycote

Sustainability report

"Bodycote plays an important role in helping customers meet their sustainability goals. We are a major enabler of avoided emissions – CO_2 can be reduced by up to 60% per part when processed by Bodycote. Outsourcing to Bodycote also directly reduces customers' Scope 1 and Scope 2 emissions. In 2023, we accelerated our work to develop digital tools to help customers see opportunities to decarbonise their processes, while also taking action to reduce the Group's own carbon footprint in line with our 2030 science-based target."

S.C. Harris
Group Chief Executive

Our approach

Sustainability is integral to our corporate strategy and has long been part of our purpose through the contribution that our services make in reducing industry's environmental impact. Indeed, the Group's ability to provide sustainable, lower-carbon services that increase the lifespan of customer components is among its greatest opportunities to create shared value.

The Group's continued progress in managing its own environmental impact also delivers significant benefits to the Company itself, in lowering energy consumption, operating costs and exposure to financial risks.

Our approach to sustainability targets the areas where we have the greatest potential to create value for our stakeholders, and is underpinned by our emphasis on responsible and ethical business conduct. We prioritise the following areas:

- **Our people:** we are focused on fostering a safe, healthy environment in which colleagues can thrive and support in the delivery of our strategic priorities.
- **Our customers:** Bodycote offers some of the most energy-efficient processes available on the market. By using our services, customers can achieve significant carbon reductions.
- **Our environment:** effective management of climate and environment-related issues is key to our operational performance. We have set a science-based carbon reduction target for 2030.
- **Ethical business:** we are committed to upholding strong governance standards, aligning our approach to key sustainability frameworks and standards, and meeting our legal obligations.

This report provides a summary of the Group's sustainability performance. Additional information is provided in the '2023 ESG Supplement', published at the following address: www.bodycote.com. The Group's Task Force on Climate-related Financial Disclosures (TCFD) report is on pages 43-52.

Delivering our sustainability agenda

The Group has established a clear governance structure to deliver its sustainability priorities. The Group's Executive Committee, led by the Group CEO, is ultimately responsible for the execution of the Group's sustainability activity. During the year, the Group appointed a dedicated Chief Sustainability Officer to the Committee, who has functional responsibility for supporting the definition, execution and communication of the Group's sustainability agenda. The Group CEO, and the Chief Sustainability Officer, provide regular updates to the Board on sustainability matters, including through dedicated sessions at least twice a year. The Group's Risk and Sustainability Committee supports the Executive Committee in coordinating the delivery of sustainability goals. It meets at least three times a year.

Bodycote recognises the benefit of incorporating ESG measures in executive compensation. ESG metrics are included in the annual bonus scheme.

Communications and ratings

Bodycote is committed to transparent communication of our sustainability policies, actions, and results. Our disclosures align to our priority sustainability topics, and stakeholder and regulatory expectations and requirements.

We have augmented our sustainability disclosures this year through the publication of a '2023 ESG Supplement' document, available on our website. Disclosures within this are aligned with frameworks such as the Global Reporting Initiative (GRI) Index, SASB and other ESG ratings.

Sustainability report continued

Our people

The Group's people strategy is focused on nurturing our employees' passion for their work, while ensuring a safe and healthy work environment, and providing opportunities for their ongoing professional development. Our culture is rooted in our core values, which apply across the Group. In keeping with our philosophy, our values are straightforward and focused on what matters most:

– **Honesty and transparency:** Bodycote lives by a culture of honest and transparent behaviour. Our customers trust us to deliver what we say we will, our colleagues trust us to act in their best interests, and our suppliers trust us to conduct business according to agreed terms.
– **Respect and responsibility:** We manage our business with respect, applying an ethical approach to all our dealings and being mindful of the impact of our actions. We show respect for our customers, our colleagues, our suppliers and the communities around us.
– **Creating value:** Creating value is the very essence of our business and is the focus of our endeavours. We create value for our customers, our employees, and society more broadly. Ultimately, we create value for our shareholders, as the owners of our business.

These values provide a framework for sustainable progress. They are reflected in our people policies and systems and in the Group's Code of Conduct.

Health and safety

The safety of our colleagues, contractors and visitors is our utmost priority. We are committed to continuously improving our environmental, health and safety (EHS) performance.

The Group manages potential hazards and minimises risks to employees through the deployment of robust safety management systems and procedures. We are committed to complying with all local legislative requirements as a minimum. We require all employees to accept their responsibility to work safety in line with our global Occupational Health and Safety Policy, which sets out our standards for safety rules and work procedures, use of safety equipment, and contribution to the maintenance of a safe working environment. We actively encourage the reporting of near misses, unsafe acts or conditions, and ongoing suggestions for improvement.

The Group's health and safety performance is monitored at least monthly as a standing agenda item at Board and Executive Committee meetings. It is also the first agenda item for monthly Operations performance reviews, chaired by our Group Chief Executive.

Health and safety management

Bodycote's EHS management system is aligned with the ISO 45001 standard for occupational health and safety. It includes a comprehensive suite of EHS Standards that sets out expectations for health and safety target setting, procedures and practices across the Group.

The Group holds ISO 45001 certification covering 30% of its facilities in Europe. External EHS audits are undertaken through ISO accreditations at sites where we hold them in accordance with the re-certification process. Additional audits and site visits are undertaken by Group Internal Audit and members of the EHS team. Almost 70 plants in total were audited under the EHS management system during 2023 (around 43% of operational sites). All of the Group's operational facilities undergo an internal EHS audit at least every two years.

The Group engages employees in health and safety through a range of activities. Employees working in our facilities participate in 'Toolbox Talks' at least twice a month. These cover a wide range of health and safety topics including manual handling, hazardous substance disposal and mental health management. Employee involvement in Toolbox Talks is monitored by the Executive Committee.

We encourage employees to complete 'T Cards' in our facilities if they spot a potential health and safety risk or have a suggestion to improve safety. We also hold regular safety awareness events as part of our colleague engagement activities. Depending on their role, employees are required to undertake onsite and online learning courses to ensure they display good health and safety behaviours and remain alert to potential risks.

Measuring performance

The Group monitors leading and lagging health and safety metrics to track performance and generate insights for improvement. We encourage the reporting of all incidents to foster a culture of transparency among employees. Performance reports are reviewed by management and the Board on a rolling basis, and include all incidents that result in injury, as well as incidents that are considered to have had the potential to cause a serious impact but where no one has been injured.

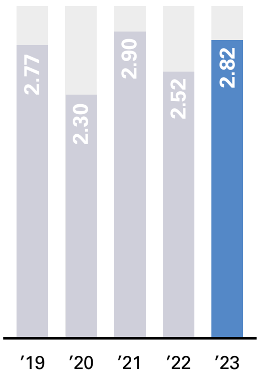
Lagging indicators

The total reportable incident rate (TRIR)[1] and lost time injury rate (LTIR) are the two key lagging indicators used to track the effectiveness of our health and safety practices. TRIR and LTIR rates are calculated in line with OSHA (Occupational Safety and Health Administration) standards. The TRIR includes all incidents (comprising of injuries and illnesses) where there is:

- **Lost time:** a worker is not able to work the following day or shift, after the day of the incident;
- **Restricted work:** a worker is not able to do their usual work due to the incident; and/or
- **Medical treatment:** a worker requires specialist medical treatment (not first aid).

In 2023, the Group recorded a TRIR of 2.8 (2022: 2.5). The LTIR was 1.5 for 2023, compared to 1.2 in 2022. There was an increase in the number of incidents relating to the manual handling of parts, slips, trips and falls, and lifting operations, particularly following holiday periods after colleagues had been away from the workplace. Delivering targeted and timely employee engagement activities remains a key area of focus to tackle the occurrence of these sorts of incidents. The Group also continued to make investments in manual handling and material handling improvements. In 2023, there were no fatalities from work-related accidents or ill health among Bodycote employees or contractors (nor in any of the last five years). See the '2023 ESG Supplement' publication for more information about the Group's EHS management plans.

Total Reportable Incident Rate[1]
(TRIR)



Leading indicators

Leading indicators are used to measure employee engagement and identify opportunities for improvement in health and safety performance and compliance. Among these, the Group tracks near miss incidents to address risks before they result in accidents. There were 356 near misses reported in 2023 (2022: 362). Colleagues also identified 2,454 opportunities for improvement in 2023 (2022: 1,871), showing an encouraging trend in the rate of awareness and reporting.

1 The Group has re-named the 'TRC rate', which has historically been reported, as 'TRIR' for communication purposes only; the calculation of the rate and the basis of preparation of the data remains unchanged. TRIR represents the number of reportable cases per 200,000 hours worked. Bodycote includes all workers within the tracking and reporting of incidents, whether employees or contractors. The LTIR represents the number of lost time injury incidents per 200,000 hours worked.

Supporting employee health

Bodycote promotes an environment that encourages line management to support the health and well-being of all employees. We recognise that individuals work best and can achieve high performance over time when they are healthy and feel valued.

The Group engages occupational health service providers across all locations. These service providers vary by region but typically provide health checks; monitoring for employees who may be exposed to risks such as noise or hazardous materials; and employee assistance programmes (EAPs).

The Group also has a range of initiatives in place to support employees' wellbeing, including through Company-wide fitness initiatives that keep employees active. In addition, the Group promotes wellbeing through regular internal communications on topics such as managing stress and mental wellbeing.

People management

Bodycote seeks to be a fair employer and promote opportunity and equality for all in our efforts to attract, develop and retain a diverse range of people. In so doing, we are committed to fostering an inclusive and open culture, in which colleagues can thrive and support the delivery of our strategic objectives.

Employee engagement

The Group follows a regular, formal internal communications programme to ensure colleagues are kept abreast of important topics. We use several channels to support communications, including a bi-monthly group-wide newsletter, and weekly news updates on our intranet. The Group also publishes important updates via email across the Group.

Every year, the Group conducts employee feedback sessions with colleagues, hosted by our designated Non-Executive Director for workforce engagement. In 2023, around 100 colleagues were engaged in feedback sessions, including operational and management-level employees representing the Group's key functions and locations around the world. See page 56 for further information.

Developing our people

We are committed to providing the appropriate skills and training to allow our employees to operate safely and effectively in their roles and deliver results. Bodycote invests in the training and development of its people at local and Group levels. Employee training is delivered through a variety of means, including through interactive online training modules, face-to-face workshops, and hands-on training in facilities. The Group also encourages cross-functional and cross-divisional information sharing to support peer-to-peer learning.

Colleagues joining the business in office-based Group functions and plant-based managerial functions typically undertake at least five hours of induction training, including on a core set of mandatory compliance topics. During the year other colleagues are required to undertake refresher training in mandatory topics such as those related to compliance and security and cyber awareness, for example. Training completion rates for employees in-scope are reported to the Executive Committee, with appropriate escalation for any training not completed on time.

The Group recognises the importance of supporting employees in maintaining a good work-life balance, as part of our talent management strategy. As part of this, in 2022 the Group introduced a Remote Working Policy. All eligible office-based employees can work from the office three days a week, and from home for the remainder of the week. The policy applies across the Group's offices globally.

Sustainability report continued

Diversity, equity and inclusion

Bodycote recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture. We regularly review our recruitment and working practices to identify how we can continue to attract and retain a diverse workforce.

Our Equality, Diversity and Inclusion Policy outlines our stance on maintaining equal opportunities and giving full, fair and impartial consideration to all employment applicants. Recruitment, training, reward and career progression are based purely on merit. We embrace a culture of acceptance and inclusion, accommodating part-time, agile and flexible working requests where appropriate. As set out in the Group's Equality, Diversity and Inclusion Policy, harassment of any kind is not tolerated.

Bodycote supports employees with policies that fortify our culture and Core Values. Our policies comply with all current legislation to engender equal opportunity irrespective of age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual orientation, political or philosophical opinions or trade union membership as well as military and veteran status in North America.

Gender diversity

As at the end of October 2023, female representation on the Board was 37.5%, up from 33% in 2022, and 38.5% of the Group's executive management were female. Among the Group's population of senior managers, 31% are female (2022: 33%). Across the workforce, women represent 21% of employees (2022: 21%).

The Group's 2022/23 Gender Pay Gap report showed that the UK mean gender pay gap is -8.6% in favour of women, while the median gender pay gap is also in favour of women (-6.5%). This compares to a UK national median gender pay gap of 14.3%.

	2023		2022	
	Male	**Female**	Male	Female
plc Board	**5 (62.5%)**	**3 (37.5%)**	6 (67%)	3 (33%)
Executive Committee	**8 (61.5%)**	**5 (38.5%)**	5 (56%)	4 (44%)
Senior managers (Executive Committee plus direct reports)	**44 (69%)**	**20 (31%)**	33 (67%)	16 (33%)
Other employees	**3,793 (80%)**	**968 (20%)**	3,851 (79%)	1,024 (21%)
Total	**3,842 (79%)**	**991 (21%)**	3,890 (79%)	1,043 (21%)

Ethnic diversity

Bodycote meets the Parker Review target for all FTSE 250 boards to have at least one member from an ethnic minority, with two members who meet the ONS classification of Asian/British Asian and mixed/multiple ethnic groups, respectively. Further information regarding the gender balance and ethnic backgrounds of the Group's Board and executive management team in accordance with LR 9.8.6 R(9) and (10) is provided on page 63.

Employment practices

Bodycote believes all colleagues should be appropriately rewarded for contributing to our success. We review wage levels and employment practices against local standards and conduct a pay review process annually, providing a regular opportunity to consider awards of pay increases. Bodycote is committed to complying with all applicable local and national minimum wage regulations at a minimum.

The vast majority of our people are employed by permanent or fixed-term contracts. As at 31 December 2023, 92% of our workers were permanently employed by the Company, with the remainder employed on temporary contracts. The Group typically employs temporary workers to supplement our permanently employed workforce during busy periods in the operation, when there is a requirement for flexible resource to fill vacancies, or to support special projects.

Our permanently employed staff are provided with a range of benefits, including paid holiday and life insurance, normally immediately upon joining but in some cases after a certain time. We also offer tuition reimbursement schemes for colleagues participating in professional development courses.

Freedom of association

Bodycote upholds employees' freedom of association and recognises their right to collective bargaining. We are committed to open and constructive engagement with our employees and their representatives. Around 36% of the Group's employees are represented by unions and works councils. Where collective bargaining agreements are in place, they cover topics such as holiday entitlement, working hours, paid and unpaid absence, grievances, and local workplace changes.

See the '2023 ESG Supplement' publication for more information about the Group's workplace practices at: www.bodycote.com.

Our customers

Bodycote has an opportunity, and responsibility, to help industry disconnect growth from carbon emissions through its services and expertise. With increasing pressure on companies to decarbonise their activities to meet emissions targets and align with emerging legislation, Bodycote plays an important role in helping customers to reduce emissions across the entire manufacturing process – from services that reduce their direct (Scope 1 & Scope 2) emissions, indirect emissions (Scope 3) and solutions that avoid emissions entirely (Scope 4).

Efficient thermal processes for reduced carbon

Sustainability considerations – and carbon reduction in particular – are continuing to increase in importance to our customers. By outsourcing to Bodycote, customers can reduce the carbon footprint of the products they manufacture. Bodycote's optimised thermal processing services typically uses less energy compared with customers' in-house processes. This enables a significant reduction in emissions associated with energy consumption, as well as process gases and other consumables.

Bodycote recently demonstrated the positive impact of our services on carbon reduction for one of our large customers. Bodycote processes the customer's parts in over 40 facilities around the world. Over the past few years, sales volumes to the customer have increased, yet carbon emissions have decreased – illustrating our success in disconnecting growth from carbon emissions. We were able to demonstrate that since 2019, we have been able to decrease CO_2e emissions by 47% per part processed. Our ability to provide this data strengthens relationships with customers, while generating useful insights for the continued refinement of our service offerings for positive environmental impact.

Digital tools for customer carbon calculations

The Group developed a digital carbon calculator in 2023, which quantifies the carbon footprint of customers' thermal processing compared to Bodycote's services for the same process. The tool uses a range of input data – such as the type of furnace, number of parts processed per cycle, processing time, and type of processing gas used – compared with 'real world' data inputs from Bodycote's own operations, tailored to the Bodycote facility and equipment type that the customers' parts would be processed in. The results show the difference in the carbon footprint of having parts processed in our facilities, compared with customers treating them in theirs. Bodycote can reduce emissions associated with thermal processing by up to 60%, compared with customers' in-house processes.

As customers increasingly request data from Bodycote to input into their product carbon footprint calculations and product lifecycle analyses, Bodycote is also developing a tool to automate these sorts of calculations. Our new digital tools will enable the Group to provide accurate input data for customers' calculations for different services offered by the Group.

up to 60%

Bodycote can reduce emissions associated with thermal processing by up to 60%, compared with customers' in-house processes.

Driving the green energy transition

As set out on page 13, in 2023, Bodycote began work on a major new multi-year contract to provide low-carbon heat treatment for automotive parts destined for hybrid vehicles. Bodycote is providing heat treatment services for a number of parts in the vehicles' driveline system. The win marked another key milestone in the Group's efforts to transition customers into adopting newer, lower-carbon heat treatment technologies.

Instead of quoting for services using traditional processing methods, Bodycote proposed low pressure carburising (LPC) for the customer's parts. This technology uses electricity, as opposed to gas, to enable a continuous reduction in products' carbon footprint as the grid becomes increasingly decarbonised over time.

Most significantly, LPC enables a vast reduction in the amount of energy required to achieve the same metallurgical properties for a product. It cuts processing time by around 20% and the amount of energy required by 50%. Process gas – needed to achieve carburisation – is also reduced by 99% in LPC technology.

Through the application of our specialist knowledge and expertise in this area, Bodycote successfully transitioned the customer to a process that will enable them to achieve significant emissions avoidance and provide low carbon revenue growth for Bodycote at the same time.

Coatings with lower environmental impacts

Bodycote's Surface Technology business provides High-Velocity Oxygen Fuel (HVOF) coatings for materials such as metals, alloys, ceramics, plastics, and composites. HVOF is an advanced thermal spray coating technique that uses a high-speed stream of oxygen and fuel gas to propel molten particles onto a substrate surface to create a dense, tightly bonded coating with excellent adhesion and high-quality mechanical properties.

Importantly, HVOF coatings provide a viable substitute for hexavalent chrome. Also known as chromium (VI), hexavalent chrome has been widely used in industry for corrosion resistance and durability. However, its toxicity poses significant risks to human health and the environment and it is therefore subject to strict restrictions under the EU's Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) regulation.

HVOF coatings technology offers a REACH-compliant alternative while exceeding customers' specified performance requirements and minimising environmental impacts in a wide range of applications, including aerospace, automotive, and other manufacturing industries. Bodycote is collaborating with customers to drive uptake of HVOF coatings, to enable them to enhance workplace safety, reduce environmental contamination, and contribute to a more sustainable future.

Sustainability report continued

Our environment

Bodycote offers some of the most energy-efficient processes available on the market, delivering energy and emissions reductions to provide benefits to our customers, the Group, and the wider environment.

As well as being integral to our commercial offering, effective management of climate and environment-related issues is key to the Group's operational performance. Through this, the Group manages its costs and exposure to risks, while minimising its consumption of resources and environmental impacts.

Energy and GHG emissions performance

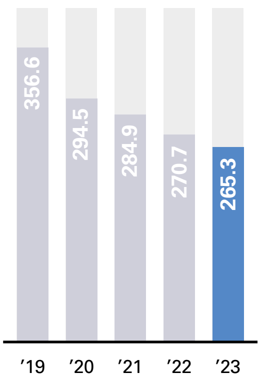
Bodycote has set a target to reduce absolute Scope 1 and 2 GHG emissions by 28% by 2030, compared with 2019 (market-based). This target has been validated by the Science Based Targets initiative (SBTi). At the end of 2023, the Group's emissions were 24% below 2019 levels (market-based). Emissions reductions are driven through energy efficiency programmes and decarbonisation initiatives.

The Group's absolute Scope 1 and 2 emissions reduced by 2% year-on-year (location-based). This reduction was mainly driven by lower gas consumption compared with the prior year (4.7% lower). Electricity consumption also reduced, however electricity-related CO_2e emissions (Scope 2 location-based) remained similar to the prior year due to an increase in the carbon intensity of electricity grids in most of the Group's countries of operation. The Group also continued to improve its emissions intensity in 2023, which reduced by 7% compared with 2022.

Energy consumption (kWh) reduced by 4.1% in 2023 due to avoidance and efficiency measures. The Group's energy intensity (kWh/£m revenue) reduced by 9% year-on-year, demonstrating significant progress in reducing energy consumption while growing revenues. We estimate that at least 20% of the Group's electricity consumption comes from renewable sources.

CO_2e emissions ($ktCO_2e$)[2,3]	2023	2022	% change in 2023	2019
Scope 1 CO_2e emissions	**134.3**	140.3	-4.3%	170.2
Scope 2 CO_2e emissions (location-based)	**131.0**	130.4	+0.5%	186.4
Scope 2 CO_2e emissions (market-based)	**145.5**	136.2	+6.8%	198.7
Total Scope 1 + Scope 2 (location-based)	**265.3**	270.7	-2.0%	356.6
Total Scope 1 + Scope 2 (market-based)	**279.8**	276.5	+1.2%	368.9

Total CO_2 emissions ($ktCO_2e$)



Emissions reduction programme

We are delivering a programme of energy saving and efficiency measures and climate-related investments in technology to achieve our SBTi target. Our capital investment programme is overseen by the Executive Committee. The Group's portfolio of climate-related initiatives includes the following:

- Increasing furnace capacity
- Optimising heat treatment cycles
- Improving furnace insulation
- Minimising occurrence of air and process gas leaks
- Reducing energy consumption of lighting
- Reducing process gas consumption
- Reducing furnace pumps' energy consumption
- Improving buildings' heating and cooling systems

The Group also works to embed climate-related considerations within existing business processes. For example, all capital investment decisions include sustainability reviews to ensure alignment with the Group's SBTi commitment.

CO_2e emissions intensity (tCO_2e/£m)	**2023** (£m sales at actual exchange rate)	**2023** (normalised to constant currency rate)	2022 (£m sales at actual exchange rate)	2022 (normalised to constant currency rate)
Scope 1	**182.6**	**184.2**	201.2	202.9
Scope 2 (location-based)	**178.1**	**179.7**	187.1	188.7
Scope 1 + Scope 2 total	**360.7**	**363.9**	388.3	391.6

Energy consumption (kWh)[4]		**2023**	2022	% change in 2023
Scope 1	Natural gas	**604,863,999**	634,423,226	-4.7%
	Other (LPG, fuel oils, diesel, petrol)	**31,384,309**	32,508,292	-3.5%
Scope 2	Electricity	**481,577,516**	498,776,796	-3.4%
Total energy consumption (kWh)		**1,117,825,824**	1,165,708,314	-4.1%

Scope 3 emissions

The Group's Scope 3 footprint does not currently meet the materiality threshold under the SBTi framework to require a science-based emissions reduction target (under SBTi criteria, if a company's Scope 3 emissions are 40% or more of total scope 1, 2, and 3 emissions, a Scope 3 target is required). As such, we are not currently reporting our full Scope 3 footprint. However, we continue to keep this under review. See page 51 in the TCFD report for further information.

2 Statutory carbon reporting disclosures required by the Companies Act 2006. The boundary for reported data has changed materially once in the last five years, following the Group's acquisition of Ellison Surface Technologies in 2020. Historical data reported at that time was also restated to incorporate Ellison Surface Technologies' CO_2e emissions to provide comparable data across reported years. In addition, as part of the Group's preparations for setting an SBTi emissions reduction target, there were minor changes to the boundary in 2022 to incorporate all relevant emissions from refrigerants, fuel oil and transportation and this was reflected in 2022 and all prior years' data reported at that time. During 2023, the Group continued to refine the emissions calculation methodology in line with best practice. This methodology has been applied to reported data for 2023 and the prior four years presented here.

3 The Group's emissions calculation methodology is provided in the document ('2023 ESG Supplement') published on our website at the following address: www.bodycote.com

4 Energy consumption data for prior years has been restated to reflect consumption as actual data has become available.

Long-term emissions strategy

Bodycote supports the aims of the Paris Agreement and recognises the importance of aligning the Group's emissions reduction strategy with global net zero goals. Our first step has been to set and drive progress towards a near-term science-based emissions reduction target. We recognise the requirement to develop a longer-term transition plan. See the TCFD report for more information about our climate strategy.

Environmental management

Bodycote's Environmental Policy applies to all sites worldwide and sets out the Group's minimum standards for environmental management. It is publicly available on our website and describes the steps taken by the Group to continuously improve performance and prevent adverse impacts. Bodycote holds all necessary and relevant environmental licences and permits in each of the countries in which we operate. We are committed to complying with legislative requirements at a minimum.

The Group's environmental management system is aligned to the international ISO 14001 standard. As at the end of 2023, 98% of the Group's operating facilities had achieved or maintained ISO 14001 certification, covering 82% of the Group's employees.

The Group's approach to energy management is aligned to the ISO 50001 Energy Management Systems Standard. The Group holds ISO 50001 certification in several countries, covering 18% of operating facilities. Through this, the Group drives a consistent energy management approach and meets the Energy Efficiency Directive 2012/27/E.U. requirements. The Group's UK operations are compliant with the directive through the Energy Savings Opportunity Scheme.

Bodycote's UK footprint

In accordance with the Streamlined Energy and Carbon Reporting (SECR) reporting requirements, emissions and energy consumption relating to the Group's UK business operations are identified separately in the below table.

Energy consumption in the Group's UK operations was almost the same year-on-year up 0.3% in 2023; however related carbon emissions increased by 4.3% compared with 2022 due to a significant change in UK GHG conversion factors for electricity in 2023.

Bodycote's UK sites (facilities and offices)[5]

	2023		2022	
	CO_2e emissions (tonnes CO_2e)	Energy consumption (kWh)	CO_2e emissions (tonnes CO_2e)	Energy consumption (kWh)
Scope 1	**4,250.0**	**19,988,786**	4,201.0	20,009,506
Scope 2	**7,768.0**	**37,664,091**	7,325.0	37,514,076
Scope 3	**13.2**	**54,627**	9.7	39,253
Total	**12,031.2**	**57,707,504**	11,535.7	57,562,835

5 Electricity and fuel consumption information is collected from each facility on a monthly basis. Scope 3 includes business road travel in vehicles not owned by the Company. Scope 3 is calculated from mileage and vehicle type. The DEFRA conversion factors are then applied to calculate the total tonnage of CO_2e produced.

6 Normalised water consumption is a thousand m³ per £m sales using closing exchange rates at 31 December 2023. Water consumption data for prior years has been restated to reflect consumption as actual data has become available.

Water use

Although the Group's processes are not water intensive by design, we recognise that water is a scarce resource and are determined to safeguard it wherever possible. In 2023, the Group withdrew around 817,533m³ of water, 8% less than in 2022. Water intensity (water withdrawal m³/£m sales) reduced by 13% compared with 2023. While the vast majority of water withdrawn is subsequently discharged, some is lost through evaporation. This is an area of focus as part of our efforts to minimise water use.

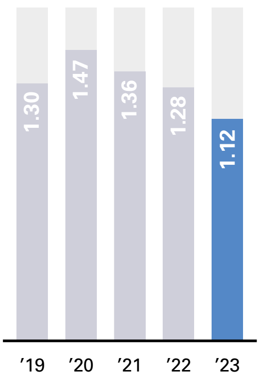
During the year the Group completed improvements to the cooling process for heat treatment furnaces. Previously these furnaces were supplied with water from cooling towers, where water was lost through evaporation. These were replaced by new adiabatic cooling systems, which are a closed-loop technology that reduce water losses through evaporation, as well as the amount of energy required for the cooling process. We initiated installation of eight of these systems in 2023 to reduce our environmental impacts and operational costs, and improve efficiency.

All water is supplied by relevant municipal suppliers and re-used and recycled extensively within our operations. When water from our operations is discharged by the Group, it is controlled using interception tanks. These allow water to be checked for contaminants and ensure it is acceptable prior to final discharge. Audits confirm that the Group's control methods are in line with ISO 14001:2015 to ensure compliance with legal obligations.

Water use (m³)

	2023	2022	% change in 2023
Total water withdrawn	**817,533**	884,027	-8%
Water intensity (m³/£m)	**1.12**	1.28	-13%

Water intensity
(thousand m³/£m sales normalised[6])



Waste management

Bodycote seeks to minimise waste produced across its locations. The Group typically re-uses the same packaging or containers that customer parts arrive in when returning them to customers. This practice helps avoid unnecessary waste, while providing efficiency for our customers. As a result, Bodycote minimises the amount of operational waste produced. Any waste that is created is segregated into different waste streams as appropriate and disposed of in accordance with local legislation. Chemicals and hazardous waste are stored separately and handled in accordance with legislative requirements. All hazardous waste is disposed with special care by licensed and authorised contractors in accordance with the applicable environmental legislation.

Sustainability report continued

Ethical business

The Group strives to meet high standards of ethical and responsible behaviour in the way we conduct business. We have a robust governance structure to support business ethics, and a series of policies that detail our Group wide commitments and standards.

Our Code of Conduct sets out our policy on compliance with legislation, child labour, anti-slavery and human trafficking, trade sanctions and conditions of employment, health, safety, and the environment. The Group prohibits forced, compulsory and underage labour and any form of discrimination based on age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual orientation, gender reassignment, pregnancy, and maternity or paternity, political or philosophical opinions or trade union membership. Appropriate mechanisms are in place to minimise the potential for any contravention of these rules.

We require employees to undertake training in our key policies to reinforce our expectations and mitigate our exposure to risks. This training is refreshed every three years.

Anti-bribery and corruption

The Group provides interactive online training courses on Bribery Prevention, Data Protection, Failure to Prevent Tax Evasion, the Group Authority Matrix, and Competition Law. As at 31 December 2023, the completion rate for all interactive courses was 97% among relevant employees.

In line with our ethos, Bodycote aims to win business in a high-value manner. The Group does not employ unfair trading methods and it competes vigorously, but fairly, within the requirements of applicable laws. Employees are prohibited from giving or receiving any gifts or donations. Bodycote does not make political donations.

Responsible supplier management

Bodycote's Supplier Code of Conduct sets out the minimum sustainability, environmental and social standards the Group expects its suppliers to adhere to, including those relating to the protection and promotion of human rights. We stipulate that we expect suppliers to communicate Bodycote's values and expectations to their employees, as well as their own suppliers. This policy is supplemented internally by our Sustainable Procurement Policy. This provides guiding principles on social, environmental and ethical topics for employees involved in procurement activities.

The Group manages suppliers with respect, honesty and integrity, no matter the size of the transaction. We agree fair contracts with suppliers and pay them promptly and in accordance with our agreed terms.

Human rights and modern slavery

Bodycote upholds and respects universal human rights. The Group's Human Rights Policy is aligned with the Ten Principles of the UN Global Compact, incorporating the United Nations Universal Declaration of Human Rights and the International Labour Organization Fundamental Conventions. Our policy reaffirms the Group's commitment to freedom of association, the abolition of forced or compulsory labour; the elimination of child labour; the elimination of discrimination; and a safe and healthy working environment. The Group's Anti-Slavery and Human Trafficking Statement is published on our website and reviewed by the Board of Directors annually.

Colleagues working in senior management, human resources and purchasing roles are required to complete dedicated Modern Slavery Act training, and participate in refresher training, at least every three years. Since 2021 over 99% of those colleagues required to undertake the training have completed it. We plan to re-train all relevant colleagues during 2024.

Encouraging colleagues to speak up

The Group's open and transparent culture encourages colleagues to speak up whenever they have a concern, without fear of reprisal. We offer a range of channels for colleagues to report suspected wrongdoing, including a third-party operated whistleblowing helpline. Our 'Open Door Line' is open to anyone who wants to report a concern in work-related context or in connection with the workplace, including employees, contractors, and former employees. We promote the helpline via posters in plants and offices, on our intranet homepage and on the Group's website.

The Board and Executive Committee receive reports about any issues raised via the helpline. All reports made in 2023 were investigated and resolved without any remedial action necessary.

Community engagement

Bodycote seeks to play a positive role in the local communities in which it operates. We encourage community involvement through activities championed by our plants locally.

In the aftermath of the devastating earthquake that struck in February 2023 along the border region of Turkey and Syria, Bodycote employees came together to support the Turkish Red Crescent Association earthquake appeal. Including Bodycote's matched giving for employee fundraising, we donated more than €70,000 to the earthquake recovery efforts. The funds provided vital aid to those in communities affected by the earthquake, reflecting Bodycote's core values of respect and responsibility and our employees' eagerness to help the communities in which we operate.

S.C. Harris
Group Chief Executive
15 March 2024

TCFD report

Task Force on Climate-related Financial Disclosures Report

Bodycote continued to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in 2023, with a particular focus on advancing its climate scenario analysis. We conducted both qualitative and quantitative scenario analysis, including modelling the potential financial impacts of climate-related risks and opportunities under different scenarios, to inform the continued development of our climate-related strategy.

TCFD statement of compliance

This report sets out Bodycote's climate-related financial disclosures, consistent with the TCFD framework, and in compliance with the Financial Conduct Authority (FCA) Listing Rule 9.8.6R(8). The Group's disclosures have been prepared to align with guidance published by the Financial Reporting Council (FRC) and FCA. The main disclosures are set out in this report, on pages 43-52. There are additional disclosures on pages 40 to 41.

Governance

Climate-related responsibilities of the Board

Climate-related matters are an integral component of Bodycote's business model and strategy. The Board oversees the management of climate-related matters as part of its responsibility to support the development of the corporate strategy. The Group Chief Executive updates the Board about the Group's climate strategy and related activity at least quarterly. In 2023 the Board agenda included reviews of the Group's SBTi target, climate risk assessment, climate-related opportunities integral to the corporate strategy, internal controls for the measurement of carbon emissions and climate-related disclosures.

The Board monitors the Group's performance against four financial and two non-financial key performance indicators. Non-financial indicators include the Group's absolute Scope 1 and Scope 2 GHG emissions (see page 50). The Board and its Committees also consider climate-related issues when reviewing annual budgets and as part of other business processes, such as authorisation of capital expenditures for projects that reduce carbon emissions.

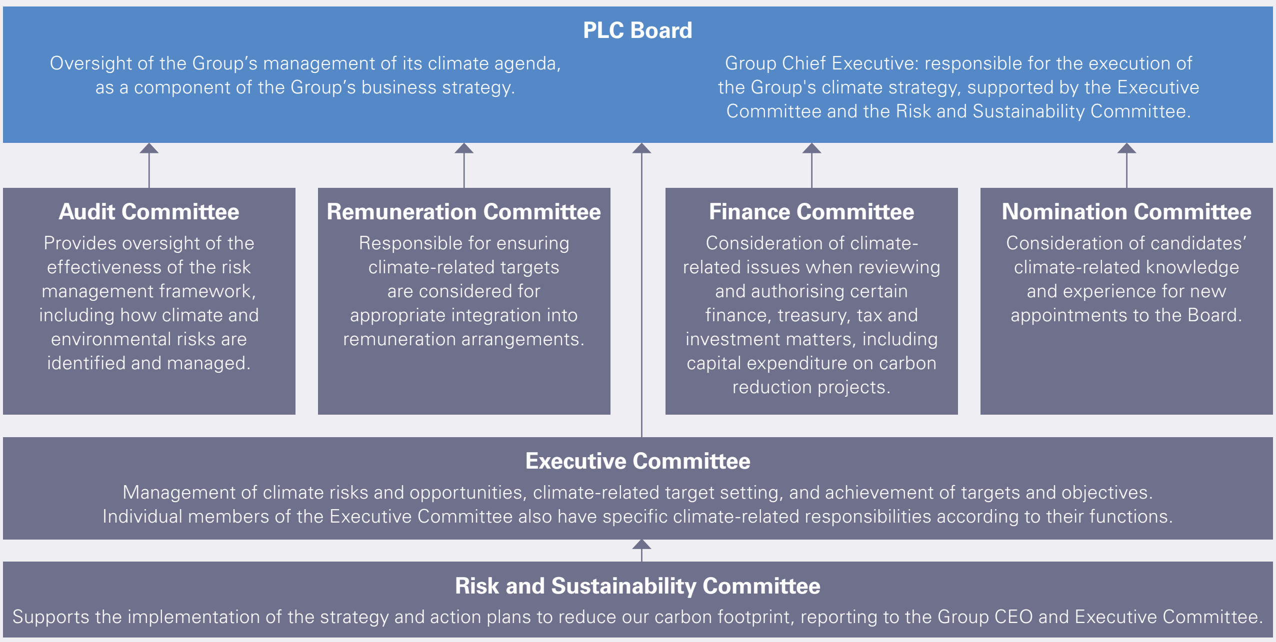
The Audit Committee supports the Board in providing oversight of the Group's risk management procedures, including how climate and environmental risks and opportunities are identified, measured and managed. The Audit Committee also oversees the Group's compliance with climate-related reporting requirements. The Remuneration, Finance and Nomination Committees have additional responsibilities in relation to climate and sustainability topics, as described in the diagram below.

Board members' sustainability experience

Board members have diverse experience in climate-related issues. Examples include:

- The Group Chief Executive has practical experience in the development of SBTi targets, and driving the development and implementation of energy and carbon reduction projects. He chaired Mondi's Sustainability and Social and Ethics Committees during his tenure as a non-executive director of the company from 2011 to 2021.
- Non-Executive Director, Beatriz García-Cos Muntañola has gained climate-related experience working in renewable energy and mining industries and through her current role as Chief Financial Officer of Ferroglobe plc. This includes developing decarbonisation and capital expenditure plans, sustainability reporting, and climate regulation and risk management.

Governance framework for climate and sustainability topics



TCFD report continued

Climate-related responsibilities of management

The Group Chief Executive has overall responsibility for the Group's climate strategy. The Chief Sustainability Officer, a member of the Executive Committee, supports the definition and coordination of the climate strategy. Other members of the Executive Committee are responsible for implementing the strategy within their respective functions.

Climate-related topics are a standing agenda item at Executive Committee meetings. This now includes review of performance against the Group's key climate-related metrics (see page 50 for details). Examples of topics discussed during 2023 include:

- Progress towards the Group's SBTi target and opportunities to accelerate.
- New carbon-focused customer communications and carbon calculator tools.
- Processes for monitoring customer engagement on climate and sustainability topics.
- Validation of the Group's processes for calculating GHG emissions.
- Climate risk and opportunity assessment as part of the Principal Risks management process.

The Group's actions in each of these areas during the year are described throughout this report and in the Sustainability Report on pages 39-41.

Processes for oversight of climate-related issues

The Executive Committee oversees processes for climate risk and opportunity management. Climate-related issues are considered as part of strategy, business planning, risk management and budgeting processes. Examples are as follows:

- Group strategy – climate-related matters influence the development of the Group's service offering and the formulation of initiatives that drive emissions reductions for customers.
- Capital investment – all capital investment decisions include sustainability reviews to ensure alignment with the achievement of the Group's SBTi commitment.
- Major plans of action – environmental impacts and opportunities are considered as part of decision-making related to our asset and property portfolio.
- Risk management – climate risk assessment is integrated into our formal risk management processes (see pages 30 and 50).
- Annual budgets, scenario planning and Going Concern assessments – the ability to seize opportunities and mitigate potential climate-related risks is considered as part of the annual budget process and longer-term financial modelling.

The Risk and Sustainability Committee supports the Executive Committee in directing and implementing climate-related initiatives, risk management and reporting; and ensuring the sustainability strategy is embedded across the Group. See page 50 for more information.

Management team responsibilities

Responsibilities of individuals:

- Group Chief Executive: overall responsibility for the Group's climate-related strategy.
- Chief Financial Officer: evaluating potential financial impacts of climate-related risks and opportunities, including those considered as part of scenario modelling and stress testing.
- Divisional Presidents: managing climate-related topics in the operations, including in relation to employees, assets and property, implementing carbon reduction projects; developing new business to support customers' climate-related goals.
- Chief Sustainability Officer: developing the Group's climate strategy and targets, and monitoring and communicating progress.
- Chief Marketing Officer: developing marketing materials to drive awareness of the Group's services and tools to support customers' emission reduction targets.
- Other members of the management team: supporting the delivery of the climate strategy within their respective areas of responsibility.

Responsibilities of teams:

- Group Finance: supporting the assessment of financial impacts of climate-related risks, opportunities and investments, and conducting scenario modelling.
- Group Sustainability: supporting the development and implementation of the climate strategy, developing emission reduction pathways and targets, and communicating progress.
- Group EHS: standardising and implementing data collection processes, including for the calculation of the Group's operational GHG emissions and carbon calculator tools.
- Group Internal Audit: ensuring climate-related risks and opportunities are captured on the Group's risk registers, and verifying the controls for the capture of climate-related data.
- Technical Services Operation (TSO): supporting facilities in implementing carbon reduction projects and new technologies that enable energy and other resource savings.
- Sales and customer key account teams: engaging with customers about their climate-related expectations and goals, and facilitating efforts to reduce their emissions.
- General managers of sites: day-to-day management of facilities, furnaces and other equipment to optimise efficiency and energy consumption, with support from the TSO team.

Climate-related incentives

Bodycote recognises the benefit of incorporating ESG metrics in executive compensation. Climate-related objectives have been linked to executive directors' remuneration for several years. ESG metrics are included in the annual bonus scheme.

Strategy

Climate change has been identified as one of Bodycote's top strategic priorities (see page 14 for the Group's strategy and objectives) and we take a proactive approach to sustainability and energy efficiency throughout our operations. Growing awareness of climate change and sustainability matters continues to be a catalyst for business growth as we provide services and solutions that decrease our customers' energy use and carbon emissions.

Our proactive energy and emissions reductions initiatives are implemented across the Group to improve operational efficiency and reduce costs. Importantly, the positive impact of our initiatives extends to our customers through our ability to offer lower carbon processing services. That is both through our ability to reduce carbon emissions when comparing like-for-like technology, and our capability to transition customers onto lower carbon technology for their processing needs, such as low pressure carburising (LPC), which delivers an even larger reduction in energy consumption and carbon emissions. Both of these levers reduce carbon for customers and provide a clear competitive advantage for the Group.

Climate scenario analysis

The Group regularly re-assesses climate-related risks and opportunities to inform its strategy, financial planning and investments. Senior professionals from across the business support the assessment of risks and opportunities through dedicated workshops. This process is supported by internal and external subject matter experts. Outputs from these assessments enable the Group to continually adapt, refine and update risks and opportunities and associated mitigation or realisation measures.

In 2023 the Group evolved its climate scenario analysis process. The Group applied the same time horizons as those used for the Group's Principal risks, where short-term refers to 0-2 years, medium-term refers to 2-5 years, and long-term refers to over 5 years. While we acknowledge that climate risks tend to present themselves in a longer timeframe than other risks evaluated in our Principal Risks, the Group has opted to use the same timeframes to integrate climate risk assessment more easily into our overall strategy and risk assessment. Climate-related impacts were assessed by referencing a wider range of scenarios, including a 2°C or lower scenario as required under TCFD. The scenarios were modelled based on the latest assessment of the Intergovernmental Panel on Climate Change (IPCC), as set out below.

The Group has undertaken a qualitative assessment of all identified climate-related risks and opportunities under each of these scenarios. The potential impact of several risks has also been quantified where a suitable quantification model and data has been available. This has been done by estimating their potential impact on both the Group's annual incremental capital outlay and operating expenditure, as well as potential annual impacts to revenue in at-risk operating locations. The management of risks and opportunities is then prioritised according to their potential impact. Risks and opportunities are considered to be material when they become sufficiently important they could significantly impact our strategy. The Group's approach to climate risk and opportunity quantification is likely to evolve going forward.

Physical risks, such as the impact of heatwaves and flooding on operations, have been assessed using external data sources. These risks were chosen for assessment as they have been identified as the most relevant in the Group's locations of operation. Heatwave risk has been assessed using data from the IPCC's Sixth Assessment Report, available through the World Bank Climate Knowledge Portal (https://climateknowledgeportal.worldbank.org/). Flooding risk (coastal and riverine) has been assessed using the same IPCC data source, together with data from WRI Aqueduct Water Risk Atlas 4.0. Wildfire risk was also assessed using a combination of IPCC data and data from MODIS by NASA[4]. Other indicators used were extracted from the IPCC's Sixth Assessment Report.

The results of the 2023 assessment, presented in the table on pages 46-49, indicate that the majority of climate-related risks and opportunities remain broadly unchanged from the 2022 assessment.

Scenario 1 (<1.5°C)[1] S1	Scenario 2 (<2°C)[2] S2	Scenario 3 (<3°C)[3] S3
Net Zero emissions reached by 2050 globally	**Emissions peak and start falling around 2050**	**Emissions keep rising (2x by 2100)**
– Global temperatures are limited to a 1.5°C increase by 2050 compared to pre-industrial levels. – Physical risks are limited, and there has been a substantial shift in behaviour and public policy (e.g. higher carbon taxes).	– Policy action is late and disruptive and while some steps have been taken, it is largely business-as-usual. – There are limited public policies before 2025, temperatures continue to rise, and physical impacts intensify.	– Limited global action results in accelerated global warming and significant physical risks. – Governments fail to introduce further policies to address climate change.

1 RCP1.9/SSP1-1.9, PRI IPR: 1.5°C Required Policy Scenario.
2 RCP3.4/SSP2-4.5, PRI IPR: Forecast Policy Scenario.
3 RCP6.0/SSP3-7.0.
4 Extracted through the World Environment Situation Room by the UNEP (2023). URL: https://wesr.unepgrid.ch/

TCFD report continued

Climate risk and opportunity assessment

Time horizons: Short (0-2 years); Medium (2-5 years); and Long (5+ years)

	Potential impact and mitigation measures	Scenario time frame
Physical Risks		
Extreme weather events ***Risk Driver:*** ***Acute physical*** – *Wildfires* – *Flooding*	**Description** Risk of disruption to the Group's operations and value chain as a result of wildfires and coastal and riverine flooding, with impacts on the Group's employees, property and equipment and surrounding public infrastructure. **Impact assessment** Fewer than 5% of sites are currently assessed as being at high risk of wildfires and flooding under all three scenarios. The potential impact of operational disruption and cost of relocation if necessary has been assessed as negligible (see the table on page 49). **Mitigation measures** – Implementation of additional mitigation measures in higher risk sites (e.g. safety, maintenance, business continuity and shift planning, landscaping etc) – Automation and remote technologies for continuous operations during disruption – Regular assessment of climate science and scenarios to monitor risk exposure	S1 Medium-term S2 Medium-term S3 Medium-term
Extreme temperatures ***Risk Driver:*** ***Chronic physical*** – *Heatwaves and heat stress* – *Cold wave/frost*	**Description** Risk of increased frequency and intensity of heatwaves, impacting employees, facilities and equipment, affecting costs (for example, equipment maintenance) and productivity. **Impact assessment** Higher risk sites have been identified, with a maximum of 20% of sites being high risk under Scenario 3. The potential financial impact of disruption to operations and potential investments in cooling measures has been assessed as low. See page 49. The risk of cold wave/frost has been evaluated as not being relevant currently. **Mitigation measures** – Investment in additional insulation and cooling measures for temperature control in at-risk sites – Investment in increased automation in our operations	S1 Long-term S2 Long-term S3 Medium-term
Transition Risks		
Impacts to electricity supply ***Risk Driver:*** ***Market*** – *Uncertainty in market signals* ***Technology*** – *Transitioning to low emission technology*	**Description** Increased demand for electricity globally could result in an increased likelihood and occurrence of power outages, potentially resulting in unplanned downtime. In Scenario 2, high demand for electricity could impact energy security; in Scenario 3 there could also be an increase in electricity demand and cost due to additional cooling requirements. **Impact assessment** The potential financial impact of this risk has not yet been assessed. The Group demonstrated in 2022 and 2023 the ability to recover energy cost inflation through its energy surcharge policy. **Mitigation measures** – Reduction in energy consumption through energy saving and energy efficiency measures – Operation during off peak hours with lower energy prices – Implementation of measures to reduce reliance on grid electricity (e.g. solar panels)	S1 Not applicable S2 Long-term S3 Long-term
Increased pricing of carbon emissions ***Risk Driver:*** ***Emerging regulation*** – *Carbon pricing mechanisms* ***Technology*** – *Transitioning to low emission technology*	**Description** A failure to reduce energy usage and new carbon taxes could increase operating costs. New regulation or pressure to reduce carbon emissions could accelerate the need to retrofit or replace technology, requiring additional capital investment. **Impact assessment** The potential financial impact of this risk has been assessed using the estimated cost of carbon in 2030; see the table on page 49. **Mitigation measures** – Reduction in energy consumption and continued progress towards our SBTi target – Further development of a decarbonisation roadmap and investment in lower carbon technology and energy – The Group demonstrated in 2022 and 2023 the ability to recover energy cost inflation through its energy surcharge policy	S1 Long-term S2 Long-term S3 Not applicable

	Potential impact and mitigation measures	Scenario time frame
Transition Risks (continued)		
Reputational risk ***Risk Driver:*** ***Reputation*** – *Stigmatisation of sector* – *Increased stakeholder concern*	**Description** Ability to attract customers, employees and investors who want to work with and for companies that are taking action on climate issues and minimising their exposure to risk. This could impact talent attraction, new business development, investor sentiment and access to or cost of debt. **Impact assessment** The Group's carbon reduction strategy positively impacts customer, employee and investor advocacy. The Group is the only major heat treatment company globally with an SBTi target, offering a competitive edge for securing new business and talent where climate action plays a role. **Mitigation measures** – Ongoing tracking of stakeholders' expectations through direct engagement, best practice benchmarks and research – Clear communications about Bodycote's climate action, alignment to international standards and its commercial offerings for carbon reduction	S1 Short-term S2 Medium-term S3 Not applicable
Increased regulation of GHG emissions ***Risk Driver:*** ***Emerging regulation*** – *Mandates on and regulation of existing services*	**Description** Increased regulation of GHG emissions could be disruptive for the Group and its customers, leading to business disruption, increased costs or taxes, and penalties or litigation in the event of non-compliance. It could also accelerate the requirement to invest in lower GHG emissions technologies. **Impact assessment** The Group has evaluated the potential financial impact of increasing deployment of low emissions technologies and has determined this as being 'low'. See page 49. **Mitigation measures** – Continued deployment of lower emissions Specialist Technologies processes – Energy reduction and decarbonisation measures – Monitoring of regulatory landscape to ensure timely action and compliance	S1 Long-term S2 Long-term S3 Not applicable
Opportunities		
Increased outsourcing by customers to reach GHG targets ***Opportunity Driver:*** ***Resource efficiency*** – *Use of more efficient production processes*	**Description** Increased revenues resulting from increased outsourcing by customers to Bodycote to i) reduce their Scope 1 and 2 emissions and decrease exposure to carbon taxes, etc.; and ii) enable emissions avoidance (Scope 4) – as emissions per part processed by Bodycote can be up to 60% lower (see page 40). **Impact assessment** The Group has opportunities to support customers in achieving their emissions targets across all its sectors and markets, leading to increased revenues. Cost reductions may also be achieved within the Group's operations as a result of higher efficiencies and furnace fill rates/utilisation. **Realisation measures** – Current operations are already geared towards the realisation of this opportunity and support GHG emissions reduction and avoidance	S1 Short-term S2 Medium-term S3 Not applicable
Low carbon technologies offering for customers ***Opportunity Driver:*** ***Services*** – *Development and/or expansion of low emission services*	**Description** Offering processing and Specialist Technologies services that have a lower carbon footprint for competitive advantage: allowing the Group to meet new requirements from customers and regulations and positioning Bodycote's services as higher value (with a premium). **Impact assessment** The Group's low carbon processing services present opportunities for higher revenues and increased margins. **Realisation measures** – Monitoring customers' climate plans and their expectations of suppliers – Increased revenues would offset capital investment for additional capacity	S1 Short-term S2 Medium-term S3 Not applicable

TCFD report continued

	Potential impact and mitigation measures	Scenario time frame	
Opportunities (continued)			
New volumes for Bodycote related to low carbon transition ***Opportunity Driver:*** ***Products and services*** – *Ability to diversify business activities* ***Markets*** – *Access to new markets*	**Description** Revenue uplift related to increased business from heat treatment services from sectors that support the transition to a lower carbon world (e.g. ICE to EVs). These sectors become a more significant revenue stream for Bodycote as a result of higher and new demand for services. **Impact assessment** Bodycote is able to realise this opportunity via current facilities and technologies. The Group's global heat treatment capacity allows us to quickly adapt to customers' requirements with low capital investment. **Realisation measures** – No significant effort or investment is expected to be required to diversify our customer base due to Bodycote having flexibility to serve both existing and new industries	S1 S2 S3	Medium-term Medium-term Not applicable
Government and other incentives ***Opportunity Driver:*** ***Resource efficiency*** – *Use of more efficient production processes* ***Services*** – *Development of low carbon service offering*	**Description** Positive impact of Government and other incentives, including revenue uplift as a result of increased customer demand for services that benefit from energy tax exemptions due to emissions avoidance, incentives for the faster adoption of lower carbon technologies, and incentives and revenue uplift from the adoption of low emissions Specialist Technologies. **Impact assessment** The impact of this opportunity has not yet been assessed. The Group will continue monitoring the opportunity and evaluate quantifying it as information becomes available that allows a reasonable approach. **Realisation measures** – Continued installation of low carbon technologies across the Group	S1 S2 S3	Medium-term Long-term Not applicable

Climate risks quantitative impact assessment

● **Negligible** <£1m ● **Low** £1m-£5m ● **Moderate** £5m-£10m ● **Significant** £10m-£20m ● **Severe** >£20m

Risk	Value drivers assessed	Potential annual impact before mitigation[1]		Time horizon	Mitigation measures
Chronic physical risk: **Heatwaves**	Potential cost of mitigation of extreme heat in sites at risk of frequent and severe heat waves (installation and operation of cooling systems) and probability of potential production losses[2].	● Low	**S1**	Long-term	– Investment in additional insulation and cooling measures for temperature control in at-risk sites – Investment in increased automation in our operations
		● Low	**S2**	Long-term	
		● Low	**S3**	Medium-term	
Acute physical risk: **Flooding, wildfire**	Potential cost of mitigating flooding and wildfire risk through relocation, and potential disruption to production in at-risk sites[3].	● Negligible	**S1**	Medium-term	– Implementation of additional measures in at-risk sites (e.g. safety, business continuity, landscaping) – Investment in increased automation in our operations – Monitoring risk using climate science and models
		● Negligible	**S2**	Medium-term	
		● Negligible	**S3**	Medium-term	
Transition risk: **Increased pricing of carbon emissions**	Future costs of carbon applied to groupwide Scope 1 and Scope 2 emissions using IPCC estimates for prices per tonne of carbon under different scenarios. (Tonnes CO_2e x projected cost per tonne)[4].	● Severe	**S1**	Long-term	– Carbon cost inflation recovery through pricing – Alignment to SBTi emission reduction pathways – Continuous reduction in absolute energy consumption, decreasing carbon emissions – Investment in increased automation in our operations
		● Moderate	**S2**	Long-term	
		–	**S3**	Not applicable	
Transition risk: **Increased regulation of GHG emissions**	Accelerated decarbonisation of operational processes through investment in LPC furnaces (electrically-powered, low consumption) and retrofitting gas heated furnaces to be powered by electricity. Assumed transition time: 25 years to 2050.	● Low	**S1**	Long-term	– Continued deployment of lower emissions specialist technologies (LPC furnaces) – Energy reduction and decarbonisation measures – Monitoring of regulatory landscape to ensure timely action and compliance
		–	**S2**	Not applicable	
		–	**S3**	Not applicable	

1 Costs before current and planned mitigation measures.
2 Site risk assessed using CMIP6 data from the World Bank Climate Knowledge Portal.
3 Probability of risk estimated using WRI Aqueduct, UNEP and NASA data.
4 Cost of carbon based on Intergovernmental Panel on Climate Change (IPCC) projections for 2030 - £100 per tonne of CO_2e in Scenario 1; £25 per tonne of CO_2e in Scenario 2.

Organisational resilience to climate change

The Group's climate scenario analysis process supports the exploration of the Group's resilience to climate-related issues and the identification and development of suitable mitigation plans. As detailed in the risk and opportunities table, mitigation or realisation measures have been identified for each of the key risks and opportunities for the Group. The Group's global presence and the diversity of applications for its services further provides resilience to potential risks, as well as possibilities for growth in new areas.

Bodycote operates an indispensable service, which cannot be substituted, and does so more efficiently than customers in-house and competitors. Bodycote is the only major heat treatment company globally to have set an SBTi-approved emissions reduction target. An increased cost of carbon would be recovered through pricing, in the same way that higher energy costs in 2022 and 2023 have been recovered through energy surcharges. At the same time, the Group's initiatives to reduce operational energy consumption provides additional resilience in the event of an increased cost of carbon – potential exposure to carbon costs reduces in line with lower energy consumption. Low carbon processing technology also provides resilience in reducing energy consumption, as well as supporting the Group's growth objectives. See page 40 for details about the Group's operational initiatives to reduce energy consumption and carbon. Examples of ways in which the Group supports customers' environmental sustainability goals are provided on pages 13 and 39.

The Group has determined that scenarios where global warming is limited to 1.5°C or less than 2°C would be most beneficial and would help the business thrive, even after considering the potential impact of an increased cost of carbon. This is due to climate-related opportunities presented in these scenarios – both commercial and operational – and a likely lower level of disruption to operations from physical climate-related impacts.

TCFD report continued

Risk management

Climate risk and opportunity identification and assessment

Climate change is considered to be among the Group's principal risks. The potential impacts of climate change include both physical risks to operations and supply chains as a result of global warming, as well as transition risks and opportunities related to regulatory and market developments arising from the shift to a low-carbon economy. Risk appetite is determined by the Board annually.

Climate-related risks and opportunities most relevant for the Group are identified through several processes, including benchmarking and desktop research, consultation with colleagues in key roles, and customer engagement. Regulatory changes are also considered as part of the Group's process to identify and assess risks and opportunities. External climate data supports the assessment of identified risks. As described on page 45, the Group ran a series of climate scenario analysis workshops to refresh its understanding of climate-related risks and opportunities in 2023. Insights from these workshops have been incorporated within the Group's principal risks register.

The process for determining the potential impact of each of the climate risks and opportunities, and their relative importance, includes both qualitative and quantitative evaluation by the Group's Sustainability and Finance functions. Members of the Risk and Sustainability Committee are also engaged to input into assessments and corroborate outcomes.

Climate risk management

Climate risk and opportunity management is led by the Group Chief Executive. The Chief Sustainability Officer supports the Group Chief Executive in ensuring climate-related strategy is aligned to key risks and opportunities. This involves maintaining the Group's climate risk register, and advising on appropriate controls to mitigate climate risks arising from current and emerging regulation, technology, legal, market, reputational, and physical climate developments.

Climate risks and opportunities are prioritised according to the potential strategic and financial impact, the likelihood of occurrence and the magnitude of potential impacts. Operational activity to manage priority climate risks and opportunities is overseen by the Executive Committee. Where necessary, additional human and financial resources are deployed to support risk mitigation, or opportunity realisation plans.

The Group's climate risk and opportunity management plans are being updated following the climate scenario analysis work undertaken during the year. Insights from this work will inform the Group's climate transition planning and the advancement of efforts to further integrate climate-related opportunities into the Group's commercial offering and operations management. Mitigation and realisation strategies for key climate risks and opportunities are described on pages 46-48.

Integration of climate risk into overall risk management

Climate risk is assessed alongside other business risks using the Group's overall risk management framework. Executive Directors and Senior Executives are assigned ownership of risk management as appropriate to their roles, with climate risk sitting with the Chief Sustainability Officer. The Executive Committee evaluates all principal risks and their mitigations collectively twice a year. This process ensures that climate-related risks and opportunities are incorporated into the Group's strategic and financial planning in a timely and appropriate way.

An aggregated principal risk register, which includes climate risk, is maintained by the Head of Internal Audit at a Group level. The operational management of risks is facilitated through Group policies and procedures, training, internal controls, reporting reviews and approval processes, which are overseen by Group Internal Audit and the Audit Committee.

Climate risks are monitored throughout the year to identify any changes in the risk profile. The Risk and Sustainability Committee supports the identification, assessment, and management of climate-related risks. Climate risk descriptions, risk scores and mitigating actions are assessed at least twice a year by the Executive Committee and reviewed annually by both the Audit Committee and the Board.

Metrics and targets

Climate-related metrics

Bodycote monitors a range of metrics to support its assessment of climate-related risks and opportunities, and tracks performance against targets. The following metrics are currently monitored:

- Scope 1 and Scope 2 emissions (CO_2e)
- CO_2e emissions intensity (CO_2e / £m)
- Energy consumption (MWh)
- Energy intensity (MWh / £m)

These metrics are monitored by the Executive Committee. Going forward, the Board will also receive a report on energy usage on a quarterly basis. ESG metrics are included in the annual bonus scheme.

Climate-related metrics are tracked using an EHS management platform which is deployed groupwide to capture environmental and health and safety data. It provides a single, comprehensive source of EHS data, including energy and carbon data that is reported internally and externally.

Other climate-related metrics

Given the nature of our business, energy consumption is the Group's most material environmental topic. Bodycote's processes are not water intensive by design, and the Group does not produce products to which water is added. However some water is required for some operational processes and the Group therefore also monitors water consumption. See page 41 for water use data and performance.

Bodycote acknowledges the benefit of climate-related metrics to track performance and control exposure to risk. We plan to expand our suite of climate-related metrics in future.

Climate-related opportunity metrics

The Group's climate strategy presents both commercial and operational opportunities:

- **Commercial opportunities**
  Bodycote has begun systematically tracking customers' sustainability requirements and new business opportunities (particularly concerning carbon reduction) via our customer relationship management platform. This provides useful insights into the frequency with which we are engaging with customers on carbon reduction, and the role it plays in winning new business.

  Bodycote has a significant opportunity to support customers in reducing the energy consumption of their manufacturing processes. As illustrated in the case study on page 13, Bodycote can reduce emissions associated with thermal processing by up to 60% per part.

- **Operational opportunities**
  The benefit of the Group's efforts to reduce carbon emissions is passed directly on to customers, in that it lowers the Scope 3 emissions associated with the services we provide to them. At the same time, the Group itself benefits from reduced energy consumption, and lower operating costs and exposure to financial risks. See page 40 for details of the Group's projects to reduce operational carbon emissions.

GHG emissions and related risks

GHG emissions	2023 CO_2e (kt)	Associated risks
Scope 1	**134.3**	– Price volatility of fossil fuels
Scope 2	**131.0**	– Fluctuation in electricity costs
Total Scope 1 + 2	**265.3**	– Increased cost of carbon – Faster than expected growth resulting in an increase in emissions beyond planned mitigation

The Group's Scope 1 and Scope 2 emissions decreased by 2% in 2023. CO_2e per £m revenue reduced by 7% compared with 2022. The above table displays location-based emissions. The Group also reports emissions data according to the market-based methodology (see page 40).

The majority of the Group's energy use relates to the consumption of electricity and gas. A breakdown of the Group's energy and fuel use by source is provided on page 40. Emissions decreased in 2023 as a result of reduced electricity and gas consumption and energy efficiency measures in our facilities.

Scope 1 and Scope 2 emissions for the last five years are set out on page 40. Emissions and energy consumption relating to the Group's UK operations are provided separately on page 41.

Bodycote uses an operational control approach for reported emissions. The Group's emissions calculation methodology is provided in the Group's 2023 ESG Supplement published at www.bodycote.com. The Group's internal audit function undertook an independent review of the Group's GHG emissions calculation processes during the year and provided assurance to the Board over the operating effectiveness of the existing controls in place.

Scope 3 emissions

Due to the nature of our business and energy consumption of our operations, the large majority of our emissions are captured in Scopes 1 and 2. The Group's Scope 3 footprint does not currently meet the materiality threshold under the SBTi framework to require a science-based emissions reduction target (under SBTi criteria, if a company's Scope 3 emissions are 40% or more of total Scope 1, 2, and 3 emissions, a Scope 3 target is required). As such, we are not currently reporting our full Scope 3 footprint. However, we continue to keep this under review. Meanwhile, we are working to develop our measurement approach to support a better understanding of our influence over value chain emissions, and in preparation for future reporting. Our climate transition scenario analysis will be updated to include Scope 3 emissions as appropriate at that stage.

Climate-related targets

Bodycote has set a science-based emissions reduction target that has been validated by SBTi. The Group commits to reduce absolute Scope 1 and Scope 2 GHG emissions by 28% by 2030 from a 2019 base year. In 2023, the Group's emissions were 24% below our base year.

The Group works towards an annual goal of achieving a 2% reduction in emissions, in line with the emission reduction trajectory required to achieve the SBTi target. Our top priority continues to be energy reduction: improving the efficiency of our operations and reducing the amount of energy consumed. The Group has established a core programme of eight key emission reduction initiatives, which are being implemented across our facilities globally. See page 40.

The Group's energy efficiency initiatives also support decarbonisation more widely. By optimising thermal processing for manufacturers, Bodycote can prevent emissions that would otherwise be released into the atmosphere. As a result, Bodycote plays a major role in avoiding emissions and reducing industry's impact on the climate overall. During the year, the Group developed a new software tool to automate the calculation of avoided emissions for customers by outsourcing work to Bodycote, compared with completing the work in-house. See page 39 for details.

The Group's position on carbon offsets

In line with the science-based approach to emissions reductions, Bodycote focuses on emissions reduction and decarbonisation. The Group intends to only make use of carbon removal or offsets as part of a residual emissions strategy if required in the future, or as part of an additional initiative to compensate for emissions or support the restoration of nature.

TCFD report continued

Task Force on Climate-related Financial Disclosures reference table

The table below is a summary of our TCFD reporting and where the relevant information can be found within this Annual Report.

Governance		
Describe the Board's oversight of climate-related risks and opportunities.	✓	**TCFD report – page 43**
Describe the management's role in assessing and managing climate-related risks.	✓	**TCFD report – page 44**

Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term.	✓	**TCFD report – pages 45-49**
Describe the impact of climate-related risks on the organisations' business, strategy and financial planning.	✓	**TCFD report – pages 46-49**
Describe the potential impact of different scenarios, including a 2°C scenario on the organisations' business, strategy and financial planning.	✓	**TCFD report – pages 46-49**

Risk management		
Describe the organisation's processes for identifying and assessing climate-based risks.	✓	**TCFD report – page 50** **Principal risks and uncertainties report – page 28**
Describe the organisation's processes for managing climate-based risks.	✓	**TCFD report – page 50** **Principal risks and uncertainties report – page 28**
Describe how processes for identifying, assessing and managing climate-based risks are integrated into the organisation's overall risk management.	✓	**TCFD report – page 50 and Principal risks and uncertainties report – page 28**

Metrics and Targets		
Disclose the metrics used by the organisation to assess climate-based risks and opportunities in line with its strategy and risk management processes.	✓	**TCFD report – pages 50-51**
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks.	✓	**TCFD report – page 51**
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	✓	**TCFD report – page 51**

✓ complete

Non-financial and Sustainability Information Statement

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our 2023 Annual Report and on our website.

Our Core Values, Code of Conduct and Group Policies underpin everything we do at Bodycote. Our Core Values and Code of Conduct ensure we comply with all applicable international and local rules and regulations. They provide guidance, including through real-life scenarios, to help colleagues address challenging and ethical issues they may encounter at work. The Core Values and Code of Conduct are available on our website, and our Group Policies support and enhance our behaviour in line with the principles set out in the Code of Conduct. A description of our business model can be found on page 15.

The Group's climate-related disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) framework are on pages 43–52 of this report. In these disclosures, details are provided about the Group's climate-related governance, strategy, risk management and metrics and targets.

Environmental

Standards, policies and actions which govern our approach		Key metrics	Internal processes to monitor performance
– Environmental Policy – Carbon footprint and water consumption statements – Initiatives to reduce energy consumption and greenhouse gas emissions	For further information visit **pages 37, 40-41** Visit **bodycote.com**	– Progress on reductions in carbon footprint and water consumption	Energy and greenhouse gas management is tracked per facility monthly.

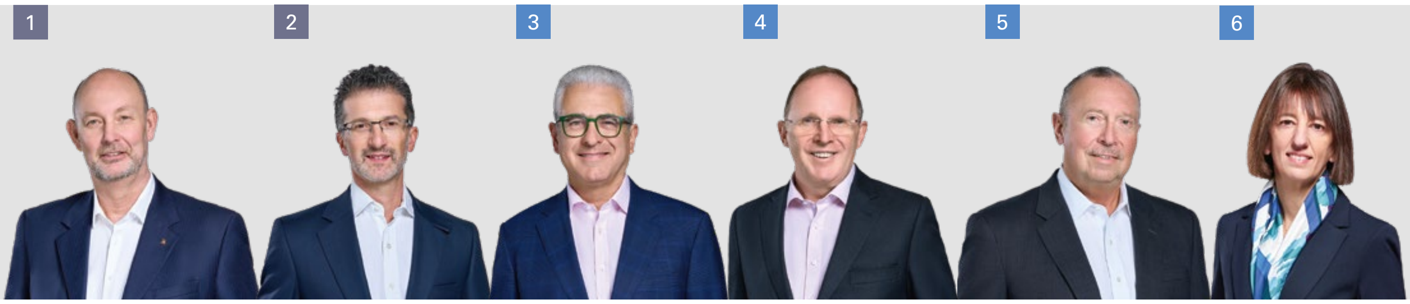
Social

Standards, policies and actions which govern our approach		Key metrics	Internal processes to monitor performance
– Performance Goal Management System – Occupational Health & Safety Policy – Succession Planning Process – Equality, Diversity and Inclusion Policy – Data Protection Policy – Open Door Policy	For further information visit **pages 36 to 38** Visit **bodycote.com**	– % of female representation in total workforce and on Executive Committee and Board of Directors – Lost work case incident rate – Recordable incident rate – UK Gender Pay Gap Report	– The Executive Committee monitors EHS performance on a monthly basis – The Executive Committee monitors employee turnover rate performance on a monthly basis – Employee Engagement Groups – Regular Open Door incident update to the Board and Executive Committee

Business Governance

Standards, policies and actions which govern our approach		Key metrics	Internal processes to monitor performance
– Core Values – Code of Conduct – Anti-Slavery and Human Trafficking statement – Human Rights Policy – Anti-Bribery and Corruption Policy – Competition and Anti-Trust Policy – Control and Compliance Statement – Supplier Code of Conduct – Tax Strategy	For further information visit **page 42** Visit **bodycote.com**	% of relevant employees trained on our policies # of breaches	The implementation and effectiveness of training is overseen by the Group General Counsel and Group Company Secretary.

Board of Directors



Executive Directors

1 Stephen Harris
GROUP CHIEF EXECUTIVE

APPOINTED: November 2008 and Group Chief Executive from January 2009 E

External roles
Non-Executive Director and Chairman Designate of Videndum PLC.

Past roles
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 and of Mondi from 2011 to 2021. At Mondi he had been the Chair of the Sustainability Committee, the Chair of the Social and Ethics Committee and the Senior Independent Director.

Qualifications
Chartered Engineer, graduated from the University of Cambridge, Master's degree in business administration from the University of Chicago, Booth School of Business.

2 Ben Fidler
CHIEF FINANCIAL OFFICER

APPOINTED: February 2023 E

External roles
None.

Past roles
Began his career in strategy consulting working for the LEK Partnership. He moved to investment banking in 1997, as an equity research analyst covering the Aerospace & Defence sector at Kleinwort Benson and then Deutsche Bank. Joined Rolls-Royce Holdings plc in 2017 where he held a number of senior management positions including Director of Group FP&A, Vice President Business Performance and Deputy Group CFO. Was a Non-Executive director of ITP Aero engines in Spain and Rolls-Royce SMR.

Qualifications
Masters degree in Biochemistry from the University of Oxford.

Non-Executive Directors

3 Daniel Dayan
NON-EXECUTIVE CHAIR

APPOINTED: January 2022 N

External roles
Non-executive Chair of CellMark AB from 2021 (not listed).

Non-executive Chair of Aquaspersions group from 2021 (not listed).

Non-executive Chair of Trend Networks group from 2023 (not listed).

Director of Nightingale Hammerson Trustee Company (not listed) and subsidiary.

Past roles
Chair of Portals International from 2020 to 2022. Chair of Low & Bonar plc from 2018 to 2020, Non-Executive Director and Chair of the Remuneration Committee of Chemring Group plc from 2016 to 2018 and Chair of Nonwovens Innovation & Research Institute from 2014 to 2015. CEO of Linpac Group and Klöckner Pentaplast Group from 2015 to 2019 and CEO of Fiberweb plc from 2006 to 2013. Daniel spent his early career at Novar plc until 2005 and prior to that worked at ICI and management consultant, Arthur D Little.

Qualifications
Bachelor's degree in Engineering from the University of Cambridge.

4 Kevin Boyd
NON-EXECUTIVE DIRECTOR

APPOINTED: September 2020 A R N

External roles
Non-Executive Chair of Genuit Group plc. Non-Executive Director of Galliford Try Holdings plc from March 2024.

Past roles
Held the positions of Chief Financial Officer at Oxford Instruments plc, Radstone Technology plc and at Spirax-Sarco Engineering plc (stepped down in September 2020). He was Non-Executive Director of EMIS Group plc from 2014, Chair of the Audit Committee from 2019 and Senior Independent Director from 2022 until October 2023.

Qualifications
Chartered Accountant, Chartered Engineer. Fellow of the Institute of Chartered Accountants and the Institute of Engineering and Technology. BEng, Electronic and Information Engineering from Queen's University Belfast.

5 Patrick Larmon
SENIOR INDEPENDENT DIRECTOR

APPOINTED: September 2016 A R N

External roles
Non-Executive Director of Handgards Inc., Box Partners LLC, DFS Inc. and Fresh Edge LLC, none of which are listed companies.

Past roles
Was Executive Vice President and owner of Packaging Products Corporation until 1990 when the company was acquired by Bunzl plc. Held various senior management positions for over 13 years before becoming President of Bunzl's North America business in 2003, then Chief Executive Officer, North America, of Bunzl plc in 2004, joining the Bunzl plc board in 2005. Retired from Bunzl plc in December 2018 and retired from Huttig Building Products Inc. in 2022.

Qualifications
Graduated from Illinois Benedictine University (major Economics & Business Economics), is a Certified Public Accountant, completed an MBA from Loyola University of Chicago and a Master of International Business from St. Louis University.

6 Lili Chahbazi
NON-EXECUTIVE DIRECTOR

APPOINTED: January 2018 A R N

External roles
Strategy consultant and a global partner in the London office of Bain & Company.

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

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

7 

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9 

KEY TO COMMITTEES:
- E Executive
- N Nomination
- R Remuneration
- A Audit
- ● Committee Chair

7 Cynthia Gordon
NON-EXECUTIVE DIRECTOR

APPOINTED: June 2022 — A R N

External roles
Chair and Non-Executive Director of Global Fashion Group and Non-Executive Director of Eutelsat Communications SA.

Past roles
Began her career at Unilever before moving to Lloyds Bank. Held the positions of VP Business Marketing and VP Partnerships & Emerging Markets at Orange – France Telecom, was Group Chief Commercial Officer at Ooredoo Group and former CEO of Millicom Cellular, Africa.

Non-executive director of Kinnevik AB, BIMA Mobile, Tele 2 AB and Bayport Financial Services.

Qualifications
Graduated with a BA from the University of Brighton in Business Studies.

8 Beatriz García-Cos Muntañola
NON-EXECUTIVE DIRECTOR

APPOINTED: September 2023 — A R N

External roles
Chief Financial Officer of Ferroglobe PLC (NASDAQ) and director of a number of its subsidiaries.

Past roles
Began her career at Audigest, Spain, before moving to PPG Industries. She spent several years at Vestas Wind Systems in Spain and then at Trafigura in Switzerland. She was Chief Financial Officer at Bekaert in Belgium, before being appointed as Chief Financial Officer of Ferroglobe plc in 2019, based in the UK.

She was also a Non-Executive Director of Bridon-Bekaert Ropes Group in the UK from 2016 to 2018.

Qualifications
Graduated with a Master's degree in Economics and Business Administration from the University of Barcelona.

9 Alison Broughton
GROUP COMPANY SECRETARY

APPOINTED: January 2024

Past roles
Began her company secretarial career with Enterprise Oil plc, before joining Shell Exploration & Production Limited, part of the Royal Dutch Shell group, following a takeover in 2002. She spent eight years with Wolseley plc (now Ferguson plc) as Deputy Company Secretary, before joining Petrofac Limited in 2011, where she was latterly the Head of Company Secretariat.

Qualifications
A fellow of the Chartered Governance Institute.

Registered office:
Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire SK10 2XF

Registered Number 519057
England and Wales.

Tel: +44 1625 505300

Board skills and experience

	D. Dayan	S. Harris	B. Fidler	P. Larmon	L. Chahbazi	K. Boyd	C. Gordon	B. García-Cos Muntañola
Strategy	●	●	●	●	●	●	●	●
M&A	●	●		●		●	●	●
International	●	●	●	●	●	●	●	●
Recent and relevant financial experience			●			●		●
Corporate finance/treasury			●			●		●
Accounting			●	●		●		●
Customer	●	●		●			●	
Sales and marketing	●	●		●	●		●	
Service industry		●		●	●		●	
Environmental, including climate change		●						●
Governance	●	●		●	●	●	●	●
Engineering	●	●				●		
Leadership	●	●	●	●	●	●	●	●
Emerging markets	●	●			●	●	●	●
Manufacturing	●	●	●			●	●	●
Capital-intensive industries	●	●	●					

Corporate governance statement

Chair's message

Dear shareholders

On behalf of the Board, I am pleased to present Bodycote's Corporate Governance Statement for 2023.

During the year, the Board considered ongoing issues around energy costs, inflation and interest rates, macroeconomic uncertainties, climate change and major geopolitical events, as well as the development of Bodycote's business. The Board, alongside management, sought to assess the risks and opportunities presented by these events and to manage their impact. My role has been to guide the debate at the Board and to ensure that our strategy remains appropriate and on-course. In addition, I led the Nomination Committee in the search for a new Group Chief Executive following the announcement in May 2023 of Stephen Harris' intention to retire in 2024, which resulted in the appointment of Jim Fairbairn.

Regular, open and constructive dialogue with shareholders continued throughout 2023, consistent with the Group's broader commitment to meaningful engagement with key stakeholders. I met several significant shareholders personally during the year to discuss shareholder views in relation predominantly to the recruitment of a successor to Stephen Harris. The Group's key stakeholders and their various perspectives are identified and taken into account as part of the Board's annual strategy and corporate planning discussions and also in project assessments and many general Board conversations. These discussions and assessments focus not only on delivering value for shareholders, but also address the impact of our decisions and strategies on all stakeholders and this broad approach is a key aspect of our culture. In relation to good governance, there is a clear emphasis on setting the tone from the top and leading by example.

In line with the Director's Duties, the Board's engagement in 2023 with employees, shareholders, customers and communities is explained in our stakeholder section on page 18.

The Group's sustainability agenda has continued to gather pace during the year, including the addition of further resource and investment. A detailed report of activities can be found on pages 35 to 42. The Board provides regular challenge and oversight of the Group's sustainability agenda, with environmental, health and safety performance being reviewed at every meeting. Climate change is continuing to rise in importance for Bodycote and its stakeholders and as such, climate-related matters have been discussed in the context of both the Group's strategy and risk management during the year. The Group continues to make good progress towards its science-based emissions reduction target, having reduced Scope 1 and 2 emissions by 24% since 2019. Bodycote's greatest opportunity however lies in its ability to support customers to achieve their sustainability goals, amplifying its impact across a multitude of markets and sectors. Emissions per part can be up to 60% lower when processed with Bodycote, compared with customers' in-house processes. The Group is augmenting its communications and marketing tools to enable emissions savings for customers and play its fullest role in the transition to a low-carbon economy. The case study on page 13 provides further details about the Group's work to support customers' sustainability agendas.

Ensuring high standards of business conduct is critical to the success of the Group. In 2023, in response to employee suggestions, we moved to a divisional model of Employee Engagement Groups led by Non-Executive Director Patrick Larmon, with virtual meetings taking place during the year. The feedback from these forums was reported to the Board and the Executive Directors charged with addressing any particular items that arose. Further information is set out on page 62.

Succession planning is a regular topic for Board discussion, although the outcome of these discussions is only visible when new appointments are made. For each appointment we look to appoint an outstanding candidate, with a diverse range of relevant experience, to maximise Board effectiveness. When considering diversity, we recognise that this can take many forms including gender, nationality, social, ethnic background, and cognitive and personal strengths. Diversity at Board level and throughout the Group is recognised by both the Board and management as a valuable strength.

The Board continued to ensure that effective Board succession plans are in place. Ben Fidler was appointed as Chief Financial Officer in February 2023 to replace Dominique Yates who retired from the Board in April 2023. Beatriz García-Cos Muntañola was appointed as a Non-Executive Director in September 2023, with her experience as a serving Chief Financial Officer of a multinational metals group being of particular value to Board discussions. Eva Lindqvist stepped down from the Board at the 2023 AGM after more than nine years of service and Ian Duncan retired in November 2023 following completion of nine years of service.

As announced in October 2023, Jim Fairbairn will succeed Stephen Harris as Group Chief Executive. Jim joined the business in March 2024 and Stephen will retire and step down from the Board after the Annual General Meeting (AGM) in May 2024, following the completion of a comprehensive handover. Jim's track record in leading and developing specialist global industrial businesses and teams is outstanding, and we look forward to working with him to drive the continuing development and growth of Bodycote.

All Directors plan to attend this year's AGM, which will provide an opportunity for shareholders to ask questions to the Board. I look forward to meeting any shareholder who can join us and extend my thanks to you all for your continued support.

Daniel Dayan
Chair

Governance framework

In respect of the 2023 financial year, Bodycote's obligation under the Disclosure and Transparency Rules (DTR) is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in July 2018 ('the Code'). The Code underpins the corporate governance framework for premium listed companies and sets out principles and provisions of good governance with compliance with the Code resting with the Board. A copy of the Code is available at www.frc.org.uk. The Board acknowledges the changes introduced to the revised Code, which was reissued by the FRC in January 2024, and which will take effect for financial years beginning on or after 1 January 2025. During 2024, consideration will be given to determining what process improvements may be required to enable the Company to report on a comply or explain basis against this revised Code.

Compliance with the 2018 UK Corporate Governance Code

Bodycote is required to explain how the Company has complied with the Code and this report details how the Company has applied the principles and complied with the provisions. In respect of the year ended 31 December 2023, Bodycote has complied with all provisions of the Code.

During 2023, Bodycote has complied with all relevant requirements of the DTR, the UK Listing Rules and narrative reporting requirements. Taken together with the Reports of the Audit and Nomination Committees, and the Board Report on Remuneration presented on pages 67 to 91, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

Code principles – Board areas of focus

Area of focus		Strategic priorities
Board leadership and Company purpose	**Read more on pages 10-12, 25-27**	
– Regularly discussing strategy at Board meetings during the year	– Approving capital expenditure in excess of £4m	1 2 3 4 5 6
– Receiving presentations from operational management on performance against the strategy	– Approving the Group's strategy, budget, tax policy and dividend	
– Considering and approving potential acquisition opportunities	– Considering and approving strategic opportunities, e.g. acquisitions	
Division of responsibilities	**Read more on pages 35-53, 56-64**	
– Review of Board roles and responsibilities	– Modern Slavery review	1 5
– Review of Group policies	– Convening the AGM, approval of shareholder materials	
– Review of schedule of matters reserved for the Board – Review of corporate governance code and guidelines	– Review of environmental, health and safety updates at each meeting	
– Review of terms of reference of all committees – Determining/maintaining the Group's values and ensuring that these are reflected in business practice	– Overview of stakeholder relationship/workforce engagement – Implementation of sustainability strategy, specifically including climate change	
Composition, succession and evaluation	**Read more on pages 28-32, 67-71**	
– Considering proposals on succession planning, when required, for the Board	– Reviewing proposals on senior executive succession planning	5
– Considering the talent management programme and the need to develop the managers and executives for the future	– Reviewing the size, composition and diversity of both the Board and its Committees – Ongoing Board training	
– Approving further terms as Non-Executive Directors for I.B. Duncan (to November 2023), P. Larmon, L. Chahbazi and K. Boyd	– Tailored induction, when required – Reviewing Board and Committee effectiveness and Directors' conflicts	
Audit, risk and internal control	**Read more on pages 72-76**	
– Approval of 2022 year end and 2023 half-year results – Recommending the final and interim dividends	– Review future scenarios and other factors in relation to audit, risk and internal control – Review of viability statement	1 5
– Annual review of principal and emerging risks, risk management and control systems	– Consideration whether the Annual Report and Accounts are fair, balanced and understandable	
Remuneration	**Read more on pages 77-91**	
– Remuneration policy review and approval (including Executive Directors' and Senior Management remuneration)	– Chair and independent Non-Executive Directors' fees review	2 3 4 5

1 Safety and Climate Change | 2 Capitalising on and investing in our Specialist Technologies | 3 Investing in Emerging Markets | 4 Investing in structural growth opportunities | 5 Driving operational improvement | 6 Acquisitions | Core Values

Corporate governance statement continued

Board responsibilities

Chair

- leadership and governance of the Board and chairs the Nomination Committee
- oversees the Board effectiveness programme
- ensures Board members receive accurate, timely and clear information on Board issues
- ensures, together with the Group Company Secretary, a comprehensive induction of new Directors
- sets Board agenda, style and tone of Board discussions
- ensures effective communication with stakeholders

Group Chief Executive

- overall responsibility and leadership of Group performance
- stewardship of Group assets
- plans, implements and executes strategies to deliver agreed objectives
- maintains a close working relationship with the Chair, ensuring effective dialogue with investors and stakeholders
- ensures leadership and development frameworks are developed to generate a positive pipeline for future opportunities for the Group
- overall responsibility for the Group's sustainability performance, and communicates the vision and values of the Group
- manages the Senior Management team
- ensures progress on ESG impact tracking and reporting

Chief Financial Officer

- maintains strong financial management and implements effective financial controls
- provides financial and commercial decision leadership, vision and support
- ensures the appropriateness of risk management systems
- oversees all aspects of accounting/finance operations including accounting policies and integrity of financial data and external financial reporting
- responsible for corporate finance functions, financial planning and budget management
- supports and advises the Senior Management team
- leads the development of investor relations strategy and communications
- maintains relationships with key external stakeholders, including key shareholders, lenders, banks and credit rating agencies

Senior Independent Director

- acts as a sounding board for the Chair
- serves as an intermediary for other Directors
- is available to meet shareholders if they have concerns which they have not been able to resolve through the normal channels
- conducts an annual review of the performance of the Chair and convenes a meeting of the Non-Executive Directors to discuss the same

Non-Executive Directors

- provide support to executive management while providing constructive challenge and rigour
- monitor strategy and bring sound judgement and objectivity to the Board's decision-making processes
- monitor management's processes to ensure financial controls and systems of risk management are robust and defensible
- monitor reporting of performance
- scrutinise performance of management
- share skills, experience and knowledge from other industries and environments
- are available to meet with major shareholders

Group Company Secretary

- secretary to the Board and its Committees
- ensures efficient information flows within the Board and its committees and between Senior Management and Non-Executive Directors
- facilitates induction of new Directors and assists with training and development needs as required
- regularly updates the Board on governance matters, legislative changes and regulatory regimes affecting the Group
- ensures compliance with Board procedures
- coordinates external Board evaluation and conducts internal Board evaluation

Matters reserved for the Board

The Board has a formal schedule of matters reserved for its decision-making and approval. These 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 Chairs and membership;
- investments;
- equity and bank financing;
- internal control and risk management;
- corporate governance;
- key external and internal appointments;
- employee share incentives and pension arrangements;
- whistleblowing and review of whistleblowing arrangements; and
- environmental, social and governance topics.

Governance framework

Directors' information and training sessions 2023 Board	
January	SBTi update, ERP update, HR update
May	IT security update
June	Insurance – market overview
July	Risk update
September	ERP update, strategy update including ESG and policy reviews
October	Economist briefing and regulatory and corporate governance updates
December	Health and safety update, risk review, sustainability update, environmental update and corporate governance review
Audit Committee	
October	BDO Internal Audit Perspectives
May and October	PwC updates on regulatory and accounting changes
Remuneration Committee	
September	Remuneration review – market update Deloitte

Accountability

Board information

In advance of Board meetings, Directors are supplied with up-to-date information regarding the trading performance of each operating division and subdivision, in addition to the Group's overall financial position and its achievement against prior year results, budgets and forecasts (where appropriate). They are also supplied with the latest available information on environmental, health and safety and risk management issues and details of both the Group's and each division's health and safety performance, in terms of severity and frequency rates for accidents at work in addition to the regular briefings from operational and functional management about Group-specific matters such as reports at each Board meeting from the Group Chief Executive and Chief Financial Officer.

Cybersecurity is covered by annual briefings and ad hoc updates by the Chief Information Officer. The Board also has a programme of briefings from the Group's external advisers on a range of topics. This enables current and future plans to be set in the wider context of the broader environment.

Decision	What happened
ERP programme	The Board conducted a deep dive review of the ERP programme to confirm the status and implementation progress. This enabled the Board to endorse management's recommendations in relation to the ERP programme, with consideration given to capital costs, deployment plans and implementation timelines.
Succession planning	In May 2023, it was announced that Stephen Harris intended to retire from the Board and the Company in 2024, following an orderly transition to his successor. The Board considered the necessary requirements for this role, delegating the remit and process to identify suitable candidates to the Nomination Committee.
Final dividend for 2022	The Board understands the importance of paying dividends whilst taking a prudent view and assuring that the Group's cash position is protected during uncertain times.
Acquisition of Lake City	During 2023, the Board considered the acquisition of two specialist technology-focused businesses in the US, which were complementary to existing operations and which would expand our geographic footprint and customer reach. The acquisition of Lake City Heat Treating, a leading HIP and vacuum heat treatment business was completed on 19 January 2024. The acquisition of the other business did not complete due to a failure to satisfy all closing conditions to the agreement.

The Board's areas of focus in 2024 are expected to include:

- Reviewing the new Group Chief Executive's proposals in relation to organisational structure, strategy and market communication;
- Increased emphasis on the challenges and opportunities arising from climate change, and sustainability and ESG matters more broadly;
- Group culture;
- Board dynamics, diversity and development, aided by an external Board evaluation process;
- Execution of strategic priorities;
- Continued monitoring of financial and operational performance;
- Continued overview of the ongoing ERP implementation programme;
- Continued strong focus on safety improvements;
- Oversight of the share buyback programme, which will commence in March 2024; and
- Principal and emerging risks review.

Corporate governance statement continued

Governance Report

Board and Board Committees meeting attendance

Each year the Board has a full programme of scheduled meetings, which are supplemented with ad hoc meetings, as required. During 2023, the Board met on nine occasions and Director attendance for meetings held during 2023 is set out below.

All Directors are encouraged to engage actively and effectively during meetings, with scrutiny and constructive debate encouraged. Non-executive Directors are able to seek clarification on any key points from management when required.

Senior Management from across the Group and advisers are routinely invited to attend and present at meetings to provide updates and context. This exposure allows specific matters to be brought to the attention of the Board, and for the Board to gain awareness of specific nuances that may not always be obvious in written reports. 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. It is also felt this provides the Directors with the opportunity to consider key individuals who have been identified through the succession planning process.

	Board Formal meetings	Audit Committee	Nomination Committee	Remuneration Committee
Meetings held during the year	**9**	**4**	**8**	**5**
Executive Directors	**Meetings attended**	**Meetings attended**	**Meetings attended**	**Meetings attended**
Stephen Harris	9	n/a	n/a	n/a
Ben Fidler[1] *(appointed 24 February 2023)*	8	n/a	n/a	n/a
Non-Executive Directors	**Meetings attended**	**Meetings attended**	**Meetings attended**	**Meetings attended**
Daniel Dayan	9	n/a	8	n/a
Patrick Larmon[2]	9	4	7	5
Kevin Boyd	9	4	8	5
Lili Chahbazi[3]	9	3	7	4
Beatriz García-Cos Muntañola[4]	4	1	3	4
Cynthia Gordon	9	4	8	5
Former Directors				
Dominique Yates[5]	3	n/a	n/a	n/a
Eva Lindqvist[6]	3	2	3	2
Ian Duncan[7]	9	4	7	4

1 Ben Fidler was appointed to the Board with effect from 24 February 2023 and attended all meetings after his appointment.
2 Patrick Larmon was unable to attend one Nominations Committee meeting due to a pre-existing commitment.
3 Lili Chahbazi was unable to attend the Committee meetings on one occasion due to a pre-existing commitment.
4 Beatriz García-Cos Muntañola was appointed to the Board with effect from 1 September 2023.
5 Dominique Yates stepped down from the Board on 30 April 2023.
6 Eva Lindqvist stepped down from the Board following the AGM on 31 May 2023.
7 Ian Duncan stepped down from the Board on 17 November 2023.

The Chair and Executive Directors also attended, by invitation, some parts of the Audit, Nomination and Remuneration Committees meetings, when relevant.

There were five Employee Engagement Group meetings held during 2023. These meetings are chaired by Patrick Larmon, and are supported by the Divisional Presidents and the Chief Human Resources Officer.

Role and responsibilities of the Board and its principal committees

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 comprised nine members for the majority of 2023 until the retirement of Ian Duncan in November, when the composition dropped to eight members. On 11 March 2024, the Board composition returned to nine members following the appointment of Jim Fairbairn as Group Chief Executive designate, now comprising six Non-Executive Directors and three Executive Directors, led by the Group's Non-Executive Chair, Daniel Dayan, who also chairs the Nomination Committee. The outgoing Group Chief Executive is Stephen Harris, and the Senior Independent Non-Executive Director is Patrick Larmon, who took over the role from Ian Duncan from 31 May 2023. Kevin Boyd is Audit Committee Chair and Cynthia Gordon is Remuneration Committee Chair, having taken over this role from Eva Lindqvist from May 2023. Biographical details of all Directors in office at 31 December 2023 are given on pages 54 and 55. During the year the Board visited facilities in Surahammar, Sweden and Izmir, Turkey. Such events involve meeting with local management and the workforce to understand technical and operational performance more clearly in countries where Bodycote has a significant presence.

Proposals for re-election

The Board has 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 each AGM. In accordance with the Articles of Association, all newly appointed Directors must submit themselves for election and accordingly, Beatriz García-Cos Muntañola and Jim Fairbairn will stand for election at the AGM to be held in May 2024 having been appointed in September 2023 and March 2024, respectively.

Non-Executive Directors, including the Chair, are appointed for fixed terms not exceeding three years from the date of first election by shareholders (maximum of two three-year terms), after which their appointment may be extended by mutual agreement on an annual basis.

The Board recommends to shareholders that they elect and re-elect all Directors. Following completion of the annual evaluation process, the Board remains satisfied that it continues to operate effectively and, following an assessment of their performance through individual reviews, the Chair also confirms in respect of each Director that their performance continues to be effective and that each continues to demonstrate commitment to his or her respective role.

Board evaluation

The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis, as well as for the Board as a whole. It continually strives to improve its effectiveness and believes these evaluations can provide a valuable opportunity to highlight strengths, identify any weaknesses and therefore drive continuous improvements.

The Code requires the Board to undertake a formal and rigorous annual evaluation of its performance and that of its Committees, with a provision requiring that this be externally facilitated every three years. The Board's last external evaluation was completed in 2021, with the next scheduled to be undertaken during 2024.

In accordance with the Code and our three-year cycle, the Chair and the Group Company Secretary internally facilitated this year's review of the Board's effectiveness. To ensure that all aspects of good governance were covered by the review, a tailored questionnaire was distributed to each member of the Board. Questions were framed under the following seven topics:

– remit and objectives;
– composition, training and resources;
– corporate governance/risk management;
– stakeholder engagement;
– Board meetings and visits;
– Board procedures and administration; and
– evaluation and effectiveness.

The process of the internal Board and Committee evaluation consisted of four steps: a) design and initiation; b) data collection; c) review by chairs; and d) discussion and actions. The Board evaluation covered the activities of the main Board and each of its Committees. At a meeting of the Nomination Committee in December 2023, the Directors assessed the conclusions reached and are in the process of implementing a number of recommendations. Additional emphasis will be placed on succession planning, reviewing longer-term strategy and developing a wider approach to ESG.

Arising from this exercise, the Board concluded that its focus should remain on divisional growth strategies, risk and sustainability, as well as continued training. The overall conclusion was that the Board is performing well, with high governance standards adopted. The Executive Directors are strongly challenged by the Board when appropriate.

Led by the Senior Independent Director, the Directors carried out an evaluation of the Chair's performance in 2023. The Board was satisfied with the Chair's commitment and performance.

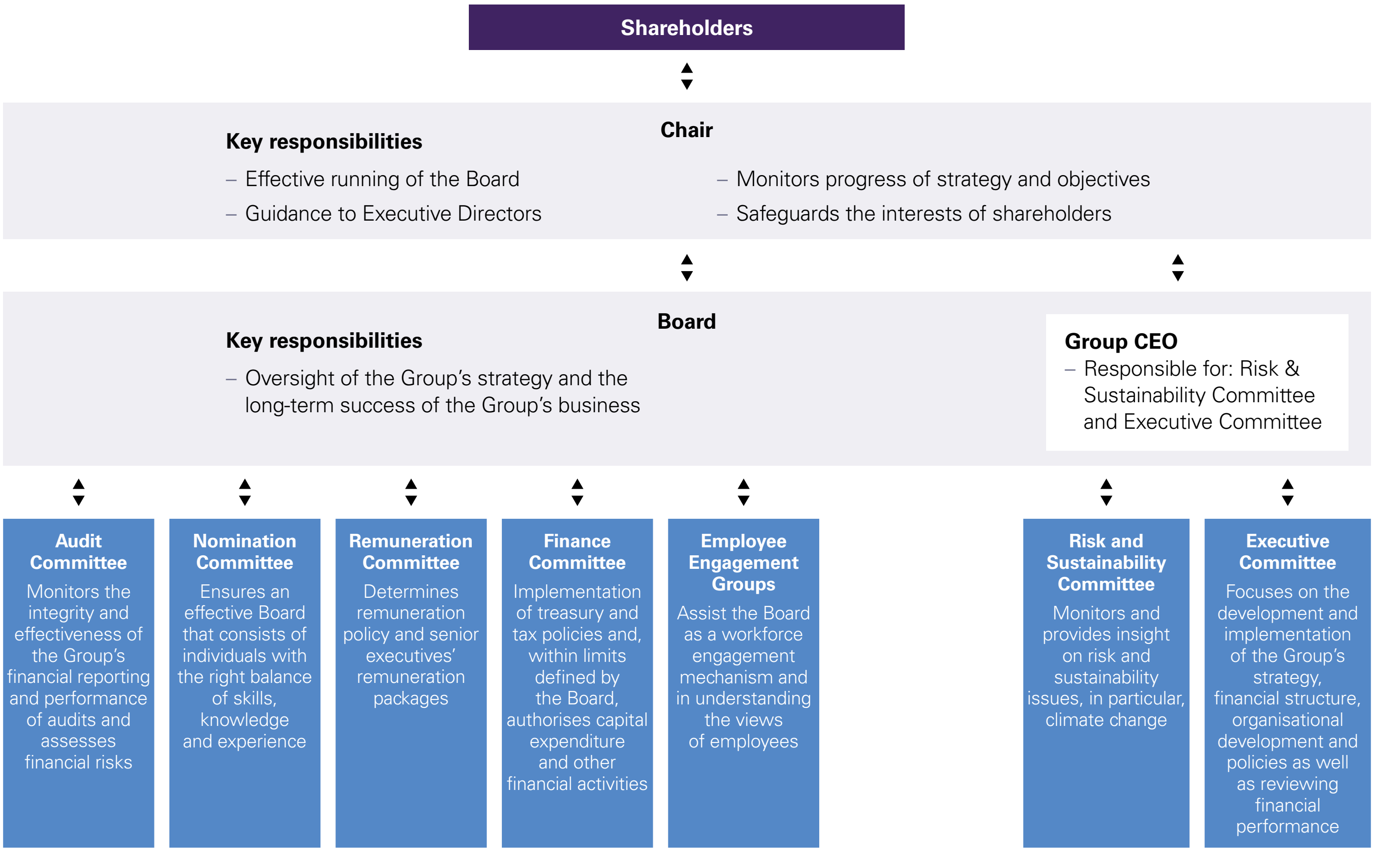
Training

Training is provided to employees where and when required, and it is important that Directors continue to develop and refresh their understanding of the Group's activities. Every year, the Board, as part of the organised site visits, meets local operational management, allowing the Directors to familiarise themselves with the technologies used, business dynamics, logistics, health and safety standards and customers served. Plant visits to Surahammar in Sweden and Izmir in Turkey were undertaken during 2023. The Board is kept informed of relevant developments in the Group by way of monthly management reports and the progress of capital projects.

It is also essential that Directors regularly refresh and update their skills and knowledge with both external and internal training. Members of the Board individually attend seminars, conferences and training events to keep up to date on developments in key areas. Board meetings include presentations from Group experts to ensure the Directors have access to the wealth of knowledge within the Group, as well as presentations and briefings from external providers.

Corporate governance statement continued

The Board structure



Finance Committee

In order that necessary actions can be taken promptly, a finance sub-committee, comprising the Chair, the Senior Independent Director, the Group Chief Executive and the Chief Financial Officer is authorised to make decisions, within limits defined by the Board, in respect of certain finance, treasury, tax or investment matters.

The Employee Engagement Groups

We currently have five Divisional Employee Engagement Groups, organised along divisional lines in Europe and North America, which meet either in person or virtually at least annually. The Groups are chaired by Patrick Larmon, the designated Non-Executive Director, with meetings facilitated by Divisional Presidents. Representatives from across the business are members of the Groups, and participation is rotated at certain intervals to allow a variety of opinions and voices to be heard and to ensure continued effectiveness. The Board feels that these Employee Engagement Groups assist them in understanding the views of employees and act as a conduit of information from employees directly to the Board.

Main activities of the Employee Engagement Groups

Participants are encouraged to discuss all aspects of the business including views, motivations and conditions of employees of Bodycote. This applies to all levels and activities across the Group. However, individual grievances or employment conditions of individual employees are not part of the remit of the Employee Engagement Groups.

The minutes of meetings are submitted with Board meeting papers and are presented to the Board by the designated Non-Executive Director.

In addition, the Board and the Executive Committee each take every opportunity to meet with local employees when visiting different business locations. During 2023, the Board visited the Surahammar site in Sweden, the Executive Committee visited the Rodengo and Madone sites in Italy and the Board and Executive Committee both visited the Izmir site in Turkey.

As a global business with operations in over twenty countries, diversity is an integral part of our culture and how we do business. The Group recognises the benefits of diversity in its broadest sense in strengthening the Board and its decision-making, and appoints Directors on the basis of relevant skills, knowledge, personality, diversity, and experience. The Group's intention is always to appoint the most suitably qualified candidate to complement and balance the current skills, knowledge, experience and diversity of the Board, and who will be best able to lead the Company in delivering its long-term strategy. The Nomination Committee also considers an individual's capability and capacity to commit the necessary time to the role in its recommendations to the Board.

Bodycote acknowledges the changes introduced by the FCA Listing Rules (LR 9.8.6R(9)) relating to diversity at board and executive management levels, which require enhanced information to be reported and disclosure against targets on the representation of women and ethnic minorities. These changes recommend that at least 40% of the board are women; at least one of the senior board positions of chair, chief executive, senior independent director or chief financial officer is held by a woman; and that at least one individual on the board is from an ethnic minority background. Bodycote has achieved the target of having at least one individual on the Board from a minority ethnic background but while representation of women on the Board increased from 33% in 2022 to 37.5% as

31 December 2023, the Company has yet not met the updated gender diversity targets. The Nomination Committee acknowledges the improvements achieved in our Board diversity figures to date and will continue to consider gender and ethnic diversity requirements as part of its succession planning discussions, especially in relation to any vacancies that arise in the senior Board positions over the coming years.

Details of female representation at senior management level and across the workforce as a whole are provided in the Sustainability Report on page 38, where we also disclose further details about the Group's approach to diversity, equity and inclusion.

In accordance with LR 9.8.6(10) of the FCA's Listing Rules, the following tables detail the diversity profile of the Board and the Executive Committee as at 31 December 2023:

Board and Executive Management diversity

Gender categories

ONS gender category	No. of Board members	% of Board	No. of senior positions on the Board (CEO/CFO, SID or Chair)	No. in executive management	% of executive management
Men (including those self-identifying as men)	**5**	**62.5%**	**4**	**8**	**61.5%**
Women (including those self-identifying as women)	**3**	**37.5%**	**0**	**5**	**38.5%**
Non-binary	**0**	n/a	**0**	**0**	**0**
Not specified/prefer not to say	**0**	n/a	**0**	**0**	**0**

Ethnicity categories

ONS ethnicity category	No. of Board members	% of Board	No. of senior positions on the Board (CEO/CFO, SID or Chair)	No. in executive management	% of executive management
White British or White Other	**6**	**75.0%**	**4**	**12**	**92%**
Mixed/Multiple ethnic groups	**1**	**12.5%**	**0**	**1**	**8%**
Asian/Asian British	**1**	**12.5%**	**0**	**0**	**0%**
Black/African/Caribbean/Black British	**0**	n/a	**0**	**0**	**0**
Other ethnic group	**0**	n/a	**0**	**0**	**0**
Not specified/prefer not to say	**0**	n/a	**0**	**0**	**0**

The data was collected by asking the individuals concerned. The reference date used was 31 October 2023, in line with the reference date used for completion of the FTSE Women Leaders Review submission. Our Equality, Diversity and Inclusion Policy is available on our website at the following address: www.bodycote.com/investors/governance/our-policies.

Shareholder relations

Stakeholder engagement enables the Board to better understand what matters to each stakeholder group, and recognising their differing interests is integral to Board discussions and central to the execution of our strategy. The engagement with our stakeholder groups is discussed in more detail on pages 18 and 20.

The Group Chief Executive and Chief Financial Officer regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy and operating performance. Additional sessions are also held with stakeholders following the publication of our full-year and half-year financial results. In addition, up-to-date news on the Group and its share price, including copies of recent announcements and results presentations, are available to all stakeholders at www.bodycote.com.

Our Chair, Daniel Dayan, engaged with the top 10 shareholders during 2023 following the announcement of Stephen Harris' retirement and again on the announcement of Jim Fairbairn's appointment as Group Chief Executive designate. Where requested, meetings took place during June, July, October and November 2023.

We have communicated with existing and potential shareholders in a number of different ways during the year:

March 2023
- Full year results announcement and results presentations
- UK shareholder roadshow
- Annual Report and Accounts and Notice of AGM posted to shareholders and placed on the website

May 2023
- Trading Update
- Annual General Meeting

July 2023
- Half-year results announcement and results presentation

September 2023
- UK shareholder roadshows
- Update on Group Chief Executive appointment with major shareholders

November 2023
- Trading Update

Corporate governance statement continued

On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the Directors with opinion surveys from analysts and investing institutions following visits and meetings with the Group Chief Executive and Chief Financial Officer, enabling them to better understand investor sentiment. The Chair and Senior Independent Director (SID) are also available to discuss any issues not able to be resolved by the Group Chief Executive and Chief Financial Officer. On specific issues, such as the review of remuneration packages or elevated levels of votes against a resolution, the Group has sought, and will continue to seek, the views of certain investors.

Director support

All Directors have access to Executive Management and to additional information, as is needed, to discharge their duties and responsibilities fully and effectively. In addition, the Company also has procedures in place for Directors to seek independent professional advice, the cost of which is reimbursed by the Group, where they judge it necessary to discharge their responsibilities. All Directors have access to the Group Company Secretary, and they may also address specific issues with the SID. A statement of the Directors' responsibilities is set out on page 92.

Business ethics and culture

A healthy culture is one in which the Group has a purpose, values and strategy that are respected by the Group's stakeholders and an operating environment that is inclusive, diverse and engaging; encouraging employees to make a positive difference for stakeholders. Corporate culture is guided by the principles against which the Board monitors how the culture exists and is viewed by employees. These are:

- Core Values as explained in the Sustainability section on pages 35 to 42
- Attitudes as summarised in the Group Policies
- Behaviours as stated in the Group's Code of Conduct

The ongoing implementation of key messages and expectations is driven through initiatives overseen by the Executive Committee and the divisions. This includes targeted communications and mandatory training, with the output reported back to the Board.

The role of the Board in relation to purpose, strategy, long-term goals and stakeholder engagement is key in supporting a healthy corporate culture. The Board's Committees support this role and the Board recognises that this continues to be an evolving area.

Accountability

Internal control and risk management

In accordance with the FRC 'Guidance on Risk Management, Internal Control and Related Financial Business Reporting' the Board recognises that it is responsible for the Group's risk management and internal control systems. These systems have been 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 Audit Committee assists the Board in the effective discharge of its responsibilities for financial reporting, risk management and internal control, with the Audit Committee well-placed to challenge the performance of the Group's financial reporting, risk management and internal control systems to safeguard the interests of shareholders,

The Board has embedded a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement. The Board's monitoring covers all significant strategic, financial, operational and compliance risks. It is based principally on reviewing reports from management and from Internal Audit (IA) to consider whether any significant failings or weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these responsibilities.

The emerging risk review, based around horizon scanning, has explored what the future might look like and seeks to identify early warning signals. Emerging risks are characterised by their high level of uncertainty both in terms of likelihood and potential impact and are therefore more difficult to manage or mitigate. The emerging risks that have been considered by the Board include geopolitical risk, more specifically, the unpredictable geopolitical landscape and uncertainty over future global events. More information on emerging risk reviews can be found on page 28.

The Board is satisfied that the Group maintains an effective system of internal controls and that there were no significant failings or weaknesses in the system. The system was in operation throughout 2023 and continues to operate up to the date of the approval of this report. The key elements of the Group's system of internal control that is monitored by the Board include:

- Key financial, legal and compliance policies that apply across the Group including: Detailed Financial Policies, Group Authority Matrix, Anti-Bribery and Anti-Corruption, Anti-Slavery and Human Trafficking, Core Values and Code of Conduct. There are also procedures in place for the identification, reporting and resolution of potentially fraudulent activities.
- A comprehensive financial planning, accounting and reporting framework.
- Financial control self-assessments (CSAs) have been developed and implemented throughout the Group. The CSAs provide confirmation that key internal controls are operating effectively throughout the year. The CSAs are verified by IA on a periodic basis and the findings and any recommendations from IA are reported to the Executive and Audit Committees on a regular basis.
- An annual internal control self-assessment, with management certification, are also undertaken at every Bodycote plant. The assessments cover the effectiveness of key financial, compliance and selected operational controls. The results are validated by IA through audit sampling and are reported to the Executive and Audit Committees.

Bodycote has engaged BDO to monitor and assist in improving the Group's internal control system. IA reviews are conducted on the basis of a risk-based plan approved annually by the Audit Committee.

During 2023, in compliance with Provision 29 of the Code, the Executive Committee performed an assessment of its risk management processes by holding risk reviews which were conducted via an internally facilitated risk workshop and an externally facilitated workshop with BDO. Management's assessment, which has been reviewed by the Board, included a review of the Group's key strategic, operational and emerging risks. As a result of the risk reviews, it was concluded that there would be no changes to the principal risks as at December 2023. Refer to pages 28 to 32 for further information on principal risks and uncertainties affecting the Group.

Annual General Meeting

The 2024 AGM will be held on 30 May 2024 in accordance with the notice being sent to shareholders under separate cover. All resolutions to be considered during the AGM will be conducted on a poll, with the results announced to the market as soon as practicable after the meeting.

By order of the Board:

A. Broughton
Group Company Secretary
15 March 2024

Directors' report

Directors' report

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2023.

The Chair's statement, the Group Chief Executive's review on pages 10 to 12, the Chief Financial Officer's report and all the information contained on pages 25 to 27, together comprise the Directors' report for the year ended 31 December 2023. For going concern, please see the Chief Financial Officer's statement on page 27 and pages 104 and 105 of the consolidated financial statements.

Strategic report

The Strategic report is provided on pages 1 to 53 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 2023, 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. Such statements should be regarded with caution due to the inherent uncertainties in economic trends and business risks. Since the end of the financial year, no significant events affecting the business of the Group have occurred.

Dividends

The Board has recommended a final dividend of 16.0p (2022: 14.9p) bringing the full year dividend to 22.7p per share (2022: 21.3p). If approved by shareholders, the final dividend of 16.0p per share will be paid on 6 June 2024 to all shareholders on the register at the close of business on 26 April 2024.

Share capital

The Company's issued ordinary share capital as at 31 December 2023 was £33.1m. No shares were issued during the year. At the Annual General Meeting on 31 May 2023, the shareholders authorised the Company to purchase up to 19,145,617 of its own shares. This authority will expire at the conclusion of the forthcoming Annual General Meeting to be held on 30 May 2024, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 22 of the consolidated financial statements.

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 24 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 2006, 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 pages 56 to 64. Under the Articles of Association, the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

There are 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 Directors in office as at 31 December 2023 and their biographies are listed on pages 54 and 55 and all apart from Ben Fidler and Beatriz García-Cos Muntañola served throughout the year. In line with the UK Corporate Governance Code, all Directors retired at the Annual General Meeting (AGM) held in 2023 and, save for Eva Lindqvist, stood for re-election by the shareholders. All Directors who were in office at the year end will retire at the AGM to be held in 2024 and, if they wish to continue to serve as Directors of the Company, will stand for re-election by the shareholders. Stephen Harris announced his retirement on 31 May 2023 and will retire and step down from the Board on 30 May 2024. He will therefore not stand for re-election at the 2024 AGM. Beatriz García-Cos Muntañola having joined the Board on 1 September 2023 will stand for election, having been appointed to the Board since the last AGM. Jim Fairbairn was appointed to the Board with effect from 11 March 2024 as Group Chief Executive designate, to succeed Stephen Harris from 31 May 2024. Jim will stand for election at the 2024 AGM.

Dominique Yates retired from the Board as Chief Financial Officer on 30 April 2023 and Eva Lindqvist and Ian Duncan each stepped down as Non-Executive Directors on 31 May 2023 and 17 November 2023 respectively.

Directors' report continued

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 within the Directors' report on remuneration on pages 77 to 91. No Director has had any dealings in any shares or options in the Company since 31 December 2023. 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.

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) have remained in force for the Directors for the year ended 31 December 2023 and, as at the date of this report, remain 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 interest 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. To ensure all Directors have complied with these duties, each Director provided the Company with a formal declaration to disclose what, if any, Situational Conflicts affected him or her. The Board reviewed these declarations and approved the existence of each declared Situational Conflict up to September 2024 and permitted each affected Director to attend and vote at Bodycote Directors' meetings, on the basis that each Director continued to ensure Bodycote's information remained confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or are no longer in the interests of Bodycote's shareholders, either 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 through the efforts of its 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 on the performance and progress of the Group, the contribution to the Group made by their site, and are advised of any safety and health issues. Employees can voice any concerns through the Group's anonymous and confidential Open Door Whistleblowing Helpline, a phone line that can be accessed in the local language.

Approximately 3,000 Bodycote employees are connected to the Bodycote intranet, which aims to improve knowledge of Group activities, and assists greatly with technology exchange and coordination.

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. Should an employee become disabled, the Group will endeavour to seek to continue the employment, arranging appropriate retraining and adjusting the employee's work environment where practical. An equal opportunities policy is in operation across the Group.

Employee and stakeholder engagement

Information relating to engagement with employees and other stakeholders, including customers and suppliers, can be found in the Strategic report on page 18 and in the Corporate Governance report on pages 62 and 63.

Greenhouse gas emissions

Details of greenhouse gas emissions and Streamlined Energy and Carbon Reporting (SECR) are included within the Sustainability section of this report on pages 40 and 41.

Donations

There were no political contributions made during 2022 or 2023.

Shareholders

An analysis of the Company's shareholders and the shares in issue as at 29 February 2024 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 159.

External auditor

In accordance with the provisions of section 489 of the Companies Act 2006, a resolution for the reappointment of PricewaterhouseCoopers LLP (PwC) as external 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:

- as 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 2024 Annual General Meeting will be held on 30 May 2024 in accordance with the notice being sent to shareholders under separate cover.

By order of the Board:

A. Broughton
Group Company Secretary
15 March 2024

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

Report of the Nomination Committee

Committee membership		Attendance
Chair	D. Dayan	8/8
Members	K. Boyd	8/8
	L. Chahbazi[1]	7/8
	B. García-Cos Muntañola *(appointed 1 September 2023)*	3/3
	C. Gordon	8/8
	P. Larmon[1]	7/8
Former Members	*I.B. Duncan (resigned 17 November 2023)*	7/7
	E. Lindqvist (resigned 31 May 2023)	3/3

Main committee responsibilities

- Regularly review the structure, size and composition (including the skills, knowledge, experience, and diversity) of the Board and make recommendations to the Board with regard to any changes.
- Give full consideration to succession planning for Directors and other senior executives.
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

1 Ms. Chahbazi and Mr. Larmon were each unable to attend one Nomination Committee meeting due to pre-existing appointments.

Dear Shareholders,

I am pleased to introduce the Nomination Committee report for 2023, which provides an overview of the work of the Committee and its activities during the year.

Board composition is a key focus for the Committee, to ensure that the Board has the right skills and experience to direct the Company in the successful execution of its strategy.

Succession planning remained the focus for the Committee during the year, with the appointment of Jim Fairbairn as Group Chief Executive-designate to succeed Stephen Harris being the most significant piece of work undertaken. Stephen Harris will step down from the Board at the 2024 AGM. On behalf of the Board, I would like to thank Stephen wholeheartedly for his remarkable stewardship of Bodycote over the past 16 years, marked by his definition of new strategies, determined execution, drive for excellence and leadership of the senior management team, all of which have contributed to significant value creation over an extended period.

Ben Fidler was appointed as Chief Financial Officer designate in February 2023 to replace Dominique Yates, who retired from the Board in April 2023. Beatriz García-Cos Muntañola was appointed as a Non-Executive Director in September 2023 to succeed Ian Duncan, who stepped down from the Board in November 2023 after his nine years' service as a Non-Executive Director. In May 2023, following the conclusion of the AGM, Eva Lindqvist also stepped down from the Board after more than nine years' service as a Non-Executive Director. We thank Eva, Ian and Dominique for their service and wise counsel. The Committee will continue to focus on ensuring that the composition of the Board remains appropriate and that all relevant UK Corporate Governance Code requirements continue to be met.

I am pleased to confirm that, following an internal review of the effectiveness of our Board and its committees, the Committee continues to operate effectively.

Daniel Dayan
Chair of the Nomination Committee

Report of the Nomination Committee continued

Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, the principal purpose of which is to review the structure, size and composition of the Board, which includes advising on the appointment and, if necessary, removal of Directors. The Committee's terms of reference, which can be found on the Group's website, include all matters required by the UK Corporate Governance Code ('the Code'). The terms of reference are reviewed annually, with any required changes referred to the Board for approval. No changes were made to the terms of reference during the year.

Recruitment Process

Succession planning	– Vacancy for a Director is identified when one of the existing Directors confirms his/her intention to resign or retire, or when it is decided to add another NED to the Board
Board composition	– The need for specific knowledge, skills and role behaviours is identified during discussions at Nomination Committee meetings
Recruitment	– External search consultancies with international reach are appointed to assist with any search
Selection	– A sub-committee examines a long list of candidates against the role specifications and a shortlist of candidates is identified
Interview	– Candidates are initially interviewed by the Chair and the Group Chief Executive for a Non-Executive Director role. The final candidates then meet with all other Directors
Balance of skills	– In order to maximise the effectiveness of the Board, candidates are carefully considered ensuring that the Board has the right skills and experiences
Appointment	– The new Director is announced as joining the Board
Induction	– The Committee and the Group Company Secretary play an active part in an induction programme, which is tailored to the needs, skills and experiences of the new Director

Key activities

Board composition/succession planning

- Recruited a new Group Chief Executive during 2023, to join the Board in March 2024
- Reviewed and updated succession plans for the Board and Senior Management
- Recruited a new Non-Executive Director in September 2023 to succeed a Director retiring from the Board

Non-Executive Directors

- Reviewed continued independence of the Non-Executive Directors
- Reviewed the Non-Executive Director time commitments and risk of over-boarding

Diversity

- Considered the updated diversity requirements required following the changes to the UK Listing Rules

Governance and evaluation

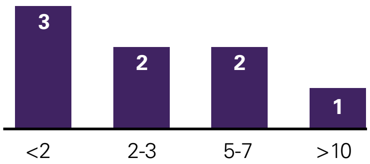
- Reviewed the Committee's Terms of Reference
- Evaluated the Committee's effectiveness
- Reviewed the performance of Executive Directors

Director appointment policy

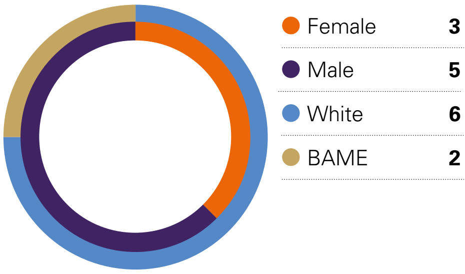
The Committee has developed a formal rigorous and transparent procedure for the appointment of new Directors. Prior to making any appointment, the Committee, having evaluated the skills, knowledge, experience and diversity of the Board, determines the qualities and experience they require and then prepares a detailed description of the role with a view to appointing the most appropriate candidate. The Committee uses open advertising and the services of independent external advisers to facilitate the search, as appropriate.

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

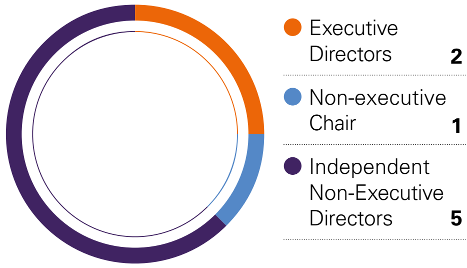
Board tenure (years)



Board diversity



Board composition



Composition of the Nomination Committee

As recommended by the Code, the Chair of the Board acts as the Chair of the Committee whose members comprise our Non-Executive Directors. The Chair cannot chair the Committee when it is dealing with either the succession to the Chair of the Group or the review of his or her own performance. Only members of the Committee have the right to attend the Committee meetings. Other individuals and external advisers may be invited to attend for all or part of any meeting when it is appropriate. The quorum necessary for the transaction of business is two. The Group Company Secretary is secretary to the Committee.

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

Board changes

During 2023, we welcomed Ben Fidler, who joined the Board as Chief Financial Officer designate on 24 February 2023, succeeding Dominique Yates, who retired from the Board on 30 April 2023. Ben joined the Group from Rolls-Royce Holdings plc, where he had held a number of senior management positions, most recently as Deputy Chief Financial Officer. We also welcomed Beatriz García-Cos Muntañola, who joined the Board as an independent Non-Executive Director on 1 September 2023. Beatriz is an experienced Chief Financial Officer, with significant international and sector experience, including extensive experience in capital markets. The retirement of Stephen Harris was announced on 31 May 2023 and the appointment of his successor, Jim Fairbairn, who joined the Board on 11 March 2024, was announced on 18 October 2023. Stephen will retire from the Board on 30 May 2024 after the completion of Jim Fairbairn's induction and the conclusion of a comprehensive handover process.

Each of these recruitment processes was led by the Chair, who was advised by two international search consultancies. In relation to Ben Fidler's appointment, Russell Reynolds were appointed, and for the appointments of Beatriz García-Cos Muntañola and Jim Fairbairn, Egon Zehnder were appointed. As part of each search process, the respective search consultancies were instructed to identify candidates who met the skills, experience and leadership behaviours required for the relevant roles, recognising that the Committee remains committed to ensuring that any Board appointment is filled by the best available candidate, with complementary skills, capabilities, experience and background to address the Board's needs, irrespective of any other consideration. Both Russell Reynolds and Egon Zender were briefed on our diversity policy and were required to reflect the policy in the long list submitted to the Committee. Neither Russell Reynolds nor Egon Zehnder have any other connections to Bodycote plc that extend beyond executive searches for the Board.

Directors' induction and training

On appointment to the Board, all Directors undertake a tailored and comprehensive induction programme, which is intended to account for each individual's differing requirements, concentrating on key focus areas. This ensures Directors are fully prepared for their new role, taking their background and experience into consideration. Each programme also considers existing expertise and any prospective Board or Committee roles.

Report of the Nomination Committee continued

In advance of Jim Fairbairn's appointment to the Board in March 2024, arrangements were made for him to gain a thorough understanding of the Group with plant visits, introductions and briefings organised to ensure he was provided with the opportunity to ask questions relating to strategic, financial and operational matters.

Details of the Board induction programmes undertaken by the three newly appointed Directors are set out below:

Board induction programme

Topic	Ben Fidler undertaken during 2023	Beatriz García-Cos Muntañola undertaken during 2023	Jim Fairbairn undertaken since December 2023
Business strategy	Meetings with Group Chair, Group Chief Executive and Senior Managers	Meetings with Group Chair, Group Chief Executive and Senior Managers	Meetings with Group Chair, Group Chief Executive and Senior Managers
Finance	Meetings with Group Finance teams, including Head of Internal Audit, Director of Finance, Group Financial Controller and Head of Tax & Treasury. Meetings with top shareholders and house analysts	Meetings with Chief Financial Officer. Meetings with Head of Internal Audit, Director of Finance, Group Financial Controller and Head of Tax & Treasury to be arranged	Meetings with Chief Financial Officer, with top shareholders and house analysts. Meetings with key members of the Group Finance team to be arranged
Governance	Meeting with Group Chair, Company Secretary and the Non-Executive Directors	Meetings with the Group Chair and Company Secretary	Meeting with Group Chair, Company Secretary and the Non-Executive Directors
Legal	Meeting with General Counsel	Meeting with General Counsel	Meeting with General Counsel
IT	Meeting with Chief Digital Officer	Meeting with Chief Digital Officer	Meeting with Chief Digital Officer
Operations	Meetings with the Group Chief Executive, Executive Committee members and Presidents	Meetings with the Group Chief Executive and Executive Committee members	Meetings with the Group Chief Executive, Executive Committee members and Presidents
Facilities	11 visits have taken place – in the UK, US, Sweden and Turkey, with further site visits scheduled during 2024	Two visits have taken place, one in Turkey and one in Czech Republic, with further site visits scheduled during 2024	Nine visits have taken place – in the US, Czech Republic, Hungary and Slovakia. This also included working on the shop floor at a plant in California. Further site visits have already been scheduled during 2024

The Board believes that continuous training and development supports Board effectiveness. The Company is therefore committed to offering tailored training to provide each Director with the necessary resources to refresh, update and enhance their skills, knowledge, and capabilities. As part of the mandatory training programme, all Directors are required to complete courses which address areas most pertinent to Bodycote and their roles on the Board. This covers both statutory obligations and ethical considerations and includes topics such as the legal duties of a director, competition law, anti-bribery and corruption, anti-tax evasion, the share dealing code, data protection, IT security, and anti-slavery regulations.

Board succession planning

The Committee spent time throughout 2023 considering succession planning across the business. The Committee received papers on Executive Director and Senior Management succession, which includes members of the Executive Committee and all Senior Management roles within the business. The plans identify immediate successors for these roles as well as the candidates as potential successors to roles in the longer-term. The Committee was satisfied that these plans remain sufficiently robust to enable vacancies to be filled on a short- to medium-term basis while taking account of the continuing need to consider diversity in its widest form. The Committee acknowledges that in a business the size of Bodycote, it is not always possible to identify internal successors for all roles.

The Committee is confident that it has carried out its role effectively during the year and its work will help to ensure that a strong pipeline of talented individuals is available to support the Group and meet its future business objectives and fulfil its strategic goals.

Nomination Committee – allocation of agenda time

Board composition and succession planning	**53%**
Performance of Chairman and Group Chief Executive	**25%**
Governance and reporting	**17%**
Independence and re-election	**5%**

Main activities of the Nomination Committee

In 2023 the Committee met formally eight times, reviewing the composition and skills of the Board, with a view to considering the current and future experience that the Board might require.

During the year, and in accordance with Provision 23 of the Code, the Committee discussed Board diversity and the diversity pipeline and reviewed the performance of the Group Chief Executive and other senior executives. In particular, the Committee discussed the Board membership with consideration given to gender, ethnicity and age. The Committee has sought to ensure that appointments are of the best candidates to promote the success of the Company and are based on merit, with due regard for the benefits of diversity on the Board. Further information concerning Board diversity can be found on page 63 as part of the Corporate governance statement. At the date of the report, female representation on the Board was 33% due to the overlap of the retiring and incoming Group Chief Executives, however this will return to 37.5% following the 2024 AGM.

Following the external Board evaluation undertaken in 2021, the Board evaluation process this year was internally facilitated. Further details on the actions arising from this review can be found on page 61 in the Corporate governance statement of the Annual Report.

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 Chair to review and agree with the Group Chief Executive his personal objectives for the forthcoming year.

In December 2023, the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for dealing with Board issues including drawing up training and induction programmes for the Directors. The terms of reference of the Committee were reviewed, with a copy available on the Company's website. The biographical details of the Directors in office at 31 December 2023 can be found on pages 54 and 55. The Committee, having reviewed its independence and contribution to Board matters, confirms that the performance of each of the Directors standing for re-election at this year's Annual General Meeting continues to be effective and demonstrates commitment to their roles, including independence of judgement and time commitment for Board and Committee meetings. Accordingly, the Committee has recommended to the Board that all current Directors of the Company with the exception of Stephen Harris who will retire from the Board in May 2024, be proposed for election and/or re-election at the forthcoming Annual General Meeting.

As Chair of the Committee, I will be available at the Annual General Meeting on 30 May 2024, to answer any question relating to the work of the Committee. Questions can be submitted in advance of the meeting either to the registered office address or to agm@bodycote.com. Representative answers will be published on the Company website in due course.

On behalf of the Nomination Committee:

D. Dayan
Chair of the Nomination Committee
15 March 2024

Report of the Audit Committee

Committee membership		Attendance
Chair	K.J. Boyd	4/4
Members	P. Larmon	4/4
	L. Chahbazi[1]	3/4
	C. Gordon	4/4
	B. García-Cos Muntañola *(appointed 1 September 2023)*	1/1
Former Members	*I.B. Duncan (retired 17 November 2023)*	4/4
	E. Lindqvist (retired 31 May 2023)	2/2

1 Ms. Chahbazi was unable to attend one meeting due to a pre-existing commitment.

Main committee responsibilities

- Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls.
- Monitor the integrity of the financial statements including annual and half- yearly reports, trading updates and any other formal announcements relating to financial performance. Review and report to the Board on significant financial reporting issues and judgements.
- Review the content of the Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
- Monitor and review the adequacy and effectiveness of the Group's internal financial control and risk management systems.
- Monitor and review the effectiveness of the Group's Internal Audit function and its key findings and trends arising, and the resolution of these matters.
- Oversee the relationship with the external auditor including approving the remuneration, audit scoping and terms of engagement, reviewing outcomes of the external audits, ensuring compliance with the policy for the provision of non-audit services, conduct the tender process and make recommendations to the Board, subject to the approval by shareholders, on the appointment, reappointment or removal of the external auditor.
- Monitor policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard and report to the Board on any improvement or action required.
- Review and monitor the external auditor's independence, effectiveness and objectivity.

The full terms of reference for the Committee can be found on the Group's website.

Chairman's introduction

I am pleased to present the Audit Committee report for the year end 31 December 2023. This report provides an overview of the Committee's key activities and focus areas during the year and the framework within which it operates.

The Committee fulfils an important oversight role providing effective governance over the Group's reporting, including the adequacy of related disclosures, the management and oversight of the Group's systems of internal control, the management of financial risks, the performance of Internal Audit as well as the appointment and evaluation of the external auditor. During the year, the Committee continued to focus on the integrity of Bodycote's financial reporting, financial risk management, internal controls and on the quality of the external and internal audit processes and will continue to keep its activities under review as the regulatory environment changes.

Kevin Boyd
Chair of the Audit Committee

Committee membership and meetings

The Committee is comprised entirely of independent Non-Executive Directors. Their biographical details are shown on pages 54 and 55, and their remuneration on page 86. The Group Company Secretary is the secretary to the Audit Committee.

Kevin Boyd is Chairman of the Audit Committee. Mr. Boyd is a Chartered Accountant and a Chartered Engineer with substantial experience in senior finance roles. The Board considers that Mr Boyd has extensive recent and relevant financial, accounting and sector experience required to chair the Committee.

All Committee members have significant and widespread experience in executive and non-executive capacities from either multinational or industrial companies and are considered to have competencies relevant to their duties. The expertise the Committee utilises, together with their independence, provides good challenge to management as well as the internal and external auditors.

The Committee met four times during 2023 and in March 2024; all members, while in office, attended all of the meetings. The Committee Chairman also invited the Board Chair, Group Chief Executive, Chief Financial Officer, Group Director of Finance, Group Financial Controller and Group Head of Internal Audit to attend all regular meetings. Other Senior Management from the Group were also invited, as appropriate, to attend meetings to provide a deeper level of insight into key issues. Furthermore, the external auditor PricewaterhouseCoopers LLP (PwC) attended every meeting, and BDO LLP, which provides internal audit services, also attended one meeting. As part of the process of working with the Board to carry out its responsibilities and to maximise effectiveness, regular meetings of the Committee generally take place just prior to Board meetings.

Mr Boyd also held preparatory meetings separately with the external auditor, the Chief Financial Officer, the Group Director of Finance, Group Financial Controller and the Group Head of Internal Audit before regular Committee meetings to review their reports and discuss issues in detail. PwC, the Group Head of Internal Audit and the Internal Auditors (BDO LLP) also met with the Audit Committee without the executives present.

Main activities of the Committee during the year

The Committee supports the Board in fulfilling its responsibilities regarding financial reporting and assessing the effectiveness of the Group's financial risk management and internal control systems. The Committee is also responsible for reviewing the Interim results for the half-year and the annual report and financial statements before recommending them to the Board for approval. At its meetings, the Committee focused on the following main areas:

Financial reporting

The primary recurring role of the Committee in relation to financial reporting has been to review, with management and the external auditor, the appropriateness and integrity of the interim results for the half-year and annual report and financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices including interpretation of reporting standards and the adoption of policies;
- the application and impact of significant judgements, accounting estimates and matters where there was a significant discussion with the external auditor;
- compliance with regulatory and governance requirements;
- the clarity of disclosures and compliance with the relevant accounting standards for the consolidated financial statements;
- the key points of disclosure and presentation to ensure the adequacy, clarity and completeness in the annual report and financial statements;
- consideration of the appropriateness of alternative performance measures and the classification of certain costs and revenues as exceptional in the annual report and financial statements;
- 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;
- reviewing with both management and the external auditor to ensure audit scoping was appropriate and that the external auditor had applied the necessary level of professional scepticism in performing their work;
- reviewing various materials to support the statements on risk management and internal control and related disclosures made in the annual report and financial statements on this matter; and
- considering progress over the Group's readiness for any changes required by the revised UK Corporate Governance Code, which will include an annual declaration on the effectiveness of material internal controls.

Reports from management were reviewed on significant matters, including outstanding litigation and claims, accounting judgements and issues, UK and overseas pension reports, business combinations, treasury and tax matters and also reports from the external auditor on the outcome of their work. A summary of the areas of focus considered by the Committee in respect of the 2023 consolidated financial statements is set out in the table on pages 74 and 75.

Going concern, viability statement and financial resilience

The Committee receives regular updates from management on the underlying performance of the business, the strength of the Group's liquidity and its operational and financial resilience. The Committee has reviewed the 2023 going concern and viability statements and challenged the assumptions, risk assessments, forecasts for profits and cash generation, liquidity, available borrowing facilities and covenant compliance that were modelled as part of the scenarios and stress testing undertaken.

The Committee challenged assumptions related to current and future inflation and changes in energy costs on cash flows ensuring that these cash flows include the cost of actions to be undertaken within the time frame under review consistent with the carbon reduction initiatives agreed with the Science Based Targets initiative. Sensitivity analyses were undertaken to understand the impact of changes to key variables and included severe but plausible downside scenarios and stress testing. The Committee was satisfied that these represented accurate

Report of the Audit Committee continued

assessments of the Group's financial position at the date of the consolidated financial statements. For further detail on the going concern and viability statements please refer to pages 27 and 33, respectively.

Fair, balanced and understandable

The Committee has reviewed the form and content of the interim results for the half-year and the annual report and financial statements and a paper prepared by management setting out the approach taken in their preparation. The review included the consideration of oversight throughout the year based on review of regular financial results and reports from both Senior Management and PwC, consideration of regulatory and governance requirements for reporting, the process of planning and preparing the annual report and ensuring it contains complete, accurate and balanced information, a collaborative approach between all parties required to contribute to the report and the reviews performed to ensure feedback was appropriately reflected (including internal and external reviews).

Based on the activities described above and on robust discussion with both management and the external auditor, the Committee was satisfied with the work performed and advised the Board that the annual report, taken as a whole, presents a fair, balanced and understandable view of the business and its performance for the year under review and that it provides the information necessary for shareholders to assess the Group's strategy, business model, position and performance.

In addition to these matters, the Committee considered the following significant topics impacting the financial statements:

Area of focus	Actions
Valuation of assets As set out in the accounting policies, the Group performs an impairment test over the carrying amounts of goodwill at least annually, whilst tangible and other intangible assets are considered for impairment indicators. Refer to note 9 of the consolidated financial statements.	The Committee considered reports from management describing potential impairment indicators for tangible and intangible assets and the outcome of related tests as performed at year end. The annual impairment test was performed for all cash generating units with a goodwill balance, as required by accounting standards. The Committee reviewed these reports and challenged the results including the future forecasts underlying the value-in-use calculations, and the assumptions, particularly the discount rate and the assessment of future inflationary impacts and growth factors used in the discounted cash flow calculations for each cash generating unit and the sensitivity analysis applied. The Committee considered the adequacy of the disclosures provided. Details of sensitivity analysis applied to key assumptions used in the impairment review as well as conclusions are set out in note 9 to the consolidated financial statements. The Committee was satisfied with the carrying value of assets and goodwill and the related disclosures and that no impairment was required as of 31 December 2023.
Restructuring, reorganisation and environmental provisions Assumptions and judgement are exercised in the development of restructuring, reorganisation, legal and environmental provisions.	The Committee received reports from management and reviewed provision utilisation, the basis and the completeness of the assumptions used to calculate the provisions and the appropriateness of disclosures in the financial statements and concluded that the basis of presentation was appropriate. The Committee discussed and challenged with management the key judgements behind the provisions, taking note of the range of possible outcomes, and was satisfied with the accounting treatment and corresponding disclosures on these matters.
Taxation The Group operates in a number of tax jurisdictions and is subject to increasing reviews by different tax authorities across the Group in the ordinary course of business. A number of judgements are involved in calculating tax provisions and the level of deferred tax assets/liabilities to be recognised. Provisions are made based on the tax laws in the relevant country and the expected outcomes of any negotiations or settlements. Recognition of deferred tax assets relating to future utilisation of accumulated tax losses and other tax assets is dependent on future profitability and performance of the underlying business. Refer to notes 6 and 19 of the consolidated financial statements.	The Committee receives regular reports from management about new legislative developments that may impact the Group's tax positions as well as the results of both internal and external reviews. The Committee has focused on reviewing, understanding and challenging the Group's critical tax risks and management's assessment and valuation of these risks. Regular reports have been reviewed from management outlining the Group's most significant tax exposures, including ongoing tax audits and related tax provisions recognised by management. The Committee has supported transparency over the Group's tax risks and strategy in external reporting. Key risks, notably in the internal cross-border funding arrangements, have been reviewed and challenged including management's views on the future profitability of the relevant businesses. The Committee has received and challenged reports over the Group's preparation for, and impact of, the introduction of the global minimum tax rate in 2024 and the work on assessing the impact. The Committee was satisfied with the Group's tax approach and with the accounting treatment and disclosure in respect of tax exposures.

Area of focus	Actions
Retirement benefits schemes There will often be a range of reasonable assumptions and judgements involved in determining pension liabilities in relation to the Group's defined benefit schemes including discount rates, mortality and inflation (see note 26 of the consolidated financial statements). These variables can have a material impact in calculating the quantum of the defined benefit pension liability.	Management obtained independent external specialist advice in determining pension liabilities. The Committee reviewed reports prepared by management and key assumptions used from external advisers and is comfortable that the fundamental assumptions are reasonable. The Committee agreed to the treatment and the corresponding disclosures on these matters. See note 26 of the consolidated financial statements.

External audit

The Committee is responsible for managing the relationship with the Group's external auditor on behalf of the Board.

The Committee continues to review and make recommendations with regard to the reappointment of the external auditor each year. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's reappointment. The Group last undertook a tender for external audit services during 2018 which led to the appointment of PwC at the May 2019 Annual General Meeting, replacing Deloitte LLP.

The Group requires the lead partner to change every five years in order to protect independence and objectivity and provide a fresh challenge to the Group. The 2023 audit was Mr. Simon Morley's fifth and final year as the lead audit partner. As Mr. Morley has reached his maximum tenure, he will rotate off the Bodycote audit after the 2023 audit in line with rotation requirements. A successor has been appointed and transition commenced during the 2023 audit.

At the October Committee meeting, PwC presented its audit plan for the year end audit. The Committee considered, challenged and agreed the scope and materiality to be applied to the Group audit and its components. The Committee considered the scope carefully in respect of smaller and more remote locations as well as emerging market locations and noted that the majority of the Group's local audits are performed by PwC. Audit fees for the year were agreed at £2.3m.

Key audit matters and the audit approach to these matters are discussed in the Independent Auditors' Report (pages 93 to 99), highlighting the other significant matters that PwC drew to the Committee's attention.

Assessment of effectiveness

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 quality, technical skills and experience of the engagement partners and the audit team;
- audit approach and scope, including identification of risk areas;
- quality of reporting to the Committee, the level of challenge and professional scepticism and the understanding demonstrated by PwC of the business of the Group;
- execution of the audit;
- interaction with management;
- communication with, and support to, the Committee;
- insights, management letter points, added value and reports; and
- independence and objectivity.

An assessment questionnaire was completed by each member of the Committee, the Chief Financial Officer, the Group Director of Finance and the Group Financial Controller as well as other senior personnel involved in the audit at both the corporate and divisional levels. Senior management received answers and comments from all questionnaires and consolidated them into a report. The Committee used this report to assist in its assessment of the level of external audit effectiveness. Feedback from the process was discussed and considered by the Committee and provided to the external auditor and management. The key outputs of this assessment were:

- No issues were raised concerning the quality of both the audit partner and team in the feedback received.
- The audit had been well planned and delivered, with work completed and management comfortable that any key findings had been raised appropriately, there was active engagement on misstatements and appropriate judgements on materiality.
- PwC's reporting to the Committee was clear and included explanations supporting its conclusions.
- It was considered that there was an appropriate level of challenge during the audit over management's judgements and assertions of matters including critical accounting judgements and key sources of estimation uncertainty.
- PwC demonstrated a good understanding of the Group and identified and focused on areas of greatest financial reporting risk.

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 UK Financial Reporting Council's (FRC) 2022/23 report on Audit Quality Inspections which included a review of audits carried out by PwC. If the Bodycote audit is selected for quality review, the Committee understands that any resulting reports will be sent to the Committee by the FRC – no such review occurred in 2023. After considering all of the relevant matters, the Committee concluded that the external audit had been effective and objective. During 2023, the Group complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Report of the Audit Committee continued

Safeguarding independence and objectivity

The Committee recognises that the independence of the external auditor is an essential part of the audit framework. The independence of the external auditor was formally confirmed by PwC at the March 2023 Audit Committee and was confirmed again in March 2024. The Committee considered PwC's presentation and confirmed that it considered the auditor to be independent.

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. In order to safeguard the auditor's independence and objectivity, and in accordance with the FRC's Ethical Standard, the Group does not engage PwC for any non-audit services except where the proposed services are permissible in the context of the Ethical Standard in the first instance, and where it is work that it must, or is clearly best suited to, perform. Non-audit services, regardless of scope, cannot be awarded to the external auditor without prior approval from the Committee Chairman, on behalf of the Committee. In addition to the Group's policy, the auditor runs its own independence and compliance checks, prior to accepting any engagement, to ensure that all non-audit work is compliant with the FRC's Ethical Standard and that there is no conflict of interest. The only non-audit fees paid to the auditor in 2023 were for the half-year interim review and a subscription to a generic accounting and reporting website and are shown in note 2 of the consolidated financial statements representing 5% (2022: 5%) of the audit fee.

Internal audit

The internal audit plan for 2023 was presented to the Committee in October 2022. The plan took into account the Group's strategic objectives and risks and provided the degree of coverage deemed appropriate by the Committee. The Committee reviewed and accepted the plan following discussions and challenge as to the scope and areas of focus. The internal audit approach for 2023 was focused on providing assurance over the Group's principal risks and key financial and operational controls. The 2023 plan included an audit of the key reporting controls for Group Finance. An internal audit and risk update was provided at each meeting during the year.

At each regular meeting, the Group Head of Internal Audit presented a report to the Committee on the status of the internal audit plan, 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.

The Group Head of Internal Audit provides independent assurance over the key financial processes and controls in operation across the Group. The Group engaged BDO LLP to provide co-sourced internal audit services.

Internal Audit has provided additional financial control assurance through a number of control self-assessments. Internal auditors have received self-certification from every plant that internal controls have been complied with, or noting any non-compliance. The accuracy of returns was monitored by Internal Audit by verification visits to a sample of sites. A control self-assessment has also been obtained from each of the divisional finance teams, financial shared services, Group IT services and Group finance team. Internal Audit performed audits over a sample of returns to confirm their accuracy.

The effectiveness of Internal Audit is reviewed and discussed annually with the Group Head of Internal Audit and the BDO LLP engagement partner. Audit quality is assured through a detailed review of each report being carried out by the Group Head of Internal Audit, and a summary of each report's findings being reviewed by the Audit Committee. The review confirmed that the Internal Audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Risk management

The Committee reviewed the Group's financial risk management and internal control systems' effectiveness through regular updates from the Group Head of Internal Audit who has responsibility for monitoring the Group's risk management and internal controls framework. The Executive Committee is responsible for developing the risk framework.

The Committee reviewed changes to the principal financial risks and mitigating actions identified by management and also monitored the emerging risk identification process and provided its support to the Board in concluding that a robust assessment of the principal and emerging risks has been undertaken in 2023. Refer to the Principal Risks and Uncertainties report on pages 28 to 32.

Internal control

The Board has overall responsibility for the effectiveness of the Group's internal controls framework and is satisfied that the Group maintains an effective system of internal controls in relation to the financial reporting process, and that there were no significant failings or weaknesses in the system. At each regular meeting, the Committee considered and challenged reports from the internal auditors on internal controls' effectiveness and noted no significant failings or weaknesses. The Committee also performed an annual review of the Group's internal control processes and remains satisfied that management places a strong focus on closing out internal audit actions and ensuring their timely completion. The Committee has concluded the internal control system to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC (September 2014). Refer to page 64 for further information.

Committee evaluation

The Committee's activities formed part of an internal review of Board effectiveness which was undertaken in October 2023 and approved by the Board in December 2023. The Committee considered it had operated effectively during the year and the Directors indicated a high level of satisfaction with the work of the Committee. Based on this, and as a result of the work done during the year, the Committee has concluded that it has acted in accordance with its terms of reference and carried out its responsibilities effectively.

On behalf of the Audit Committee:

Kevin Boyd
Chair of the Audit Committee
15 March 2024

Directors' report on remuneration

Committee membership		Attendance
Chair	C. Gordon *(from 31 May 2023)*	5/5
Members	K. Boyd	5/5
	L. Chahbazi[1]	4/5
	B. García-Cos Muntañola *(appointed 1 September 2023)*	4/4
	P. Larmon	5/5
Former Members	*I.B. Duncan (retired 17 November 2023)*	4/4
	E. Lindqvist (retired 31 May 2023)	2/2

1 Ms. Chahbazi was unable to attend one meeting due to a pre-existing commitment.

Main committee responsibilities

– Responsibility for setting and reviewing the remuneration policy for Executive Directors, Senior Management and the Company's Chair.
– Recommend and monitor the level and structure of remuneration for Senior Management.
– Review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Directors' remuneration.
– Approve the design of and determine targets for Executive Directors' and other senior executives' incentive arrangements.
– Review the design of all share incentive plans for approval by the Board and shareholders. Determine whether awards will be made on an annual basis.
– Appoint remuneration consultants.

Chair's letter

On behalf of the Board of Directors, and as your new Chair of the Remuneration Committee ('the Committee'), I am pleased to present our Directors' remuneration report for 2023. Firstly, I would like to express sincere thanks to my predecessor, Eva Lindqvist, for her work with the Committee over the last 10 years. She led the Committee through a number of regulatory changes during her tenure and I now look forward to taking this position forward over the coming years.

This report is split into the following sections:

– This letter, which provides an overview of the key decisions made on Directors' remuneration during the year (pages 77 and 78).
– The Annual Report on Remuneration, which describes how our Directors' Remuneration Policy was applied during 2023 and the remuneration outcomes for the year (pages 79 to 91).

The Directors' Remuneration Policy was approved by shareholders at the 2022 Annual General Meeting and became effective from that date. There are no proposals to amend the Policy at the Annual General Meeting to be held on 30 May 2024, however we intend to hold a policy review during 2024, where input from shareholders will be sought, ahead of submitting our Remuneration Policy for shareholder approval at the AGM to be held in 2025. The Committee has addressed the principles prescribed in Provision 40 of the 2018 UK Corporate Governance Code (UK Code) when determining the Policy (see page 90).

The full Policy is available on our website at www.bodycote.com/wp-content/uploads/2022/03/Bodycote-annual-report-2021.pdf on page 76.

Executive Director changes

Group Chief Executive

Stephen Harris will step down as Group Chief Executive and retire from the Board and the Company on 30 May 2024, following an orderly transition to his successor. The treatment of Stephen Harris' remuneration arrangements, which have been agreed in accordance with our Remuneration Policy, are set out on page 85.

Jim Fairbairn was appointed as Group Chief Executive designate and as a member of the Board with effect from 11 March 2024, and will take up the role as Group Chief Executive on 31 May 2024. Having consulted with our remuneration advisors to ensure the approach taken was in accordance with our Remuneration Policy, while being consistent with industry benchmarks and shareholder expectations, the Committee agreed the following remuneration arrangements for Jim Fairbairn:

– An annual salary of £620,000. This has been positioned at the median compared with FTSE 250 companies and is competitively positioned compared to industry peers.
– A one-off relocation allowance of £30,000.
– A pension opportunity equal to 10% of base salary, which is in line with the level available to the majority of the UK workforce.
– A maximum annual bonus opportunity of 175% of base salary and a maximum Bodycote Incentive Plan ('BIP') opportunity of 175% of base salary, which is in line with our Directors' Remuneration Policy. The 2024 annual bonus will be pro-rated for time served during the year. The 2024 BIP award will be pro-rated for time served during the vesting period.

The Committee also agreed to buy out Jim Fairbairn's in-flight long-term incentive awards, which were forfeited by him on leaving his previous employer. Details of the proposed buy-out awards are set on page 80.

Chief Financial Officer

Dominique Yates stepped down as Chief Financial Officer and retired from the Board and the Company on 30 April 2023. The treatment of Dominique Yates' remuneration arrangements were disclosed in the 2022 Directors' Remuneration Report.

Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023. He assumed the role of Chief Financial Officer on 1 May 2023. As disclosed in the 2022 Directors' Remuneration Report, the Committee agreed to buy-out Ben Fidler's 2022 annual bonus (deferred proportion) and in-flight share incentives, which had been forfeited by him on leaving his previous employer. The buy-out awards were granted on 31 March 2023 and details are set out on page 85.

Directors' report on remuneration continued

Business performance and incentive outcomes for 2023

The Group delivered good growth in 2023, with further progress in our target end-markets and another year of outperformance in Specialist Technologies. Good revenue progress was delivered in the structural growth areas of civil aerospace and medical contributing to strong revenue performance. Significant operating profit margin improvement was delivered, helping to drive Group margins to 17.3%, excluding surcharges. Headline EPS increased by 13% to 48.4p and return on capital employed rose by 150 bps in the year to 14.8% from 13.3% in 2022.

Bodycote returned to the strong levels of cash conversion which are more typical for the business with headline operating cash flow of £139.5m (2022: £112.6m). The cash generation further strengthened the Group's balance sheet, achieving a net cash position at year end. This provides flexibility for a balanced approach to capital allocation in order to drive growth and deliver shareholder value.

We believe that the incentive payouts we have made to our Executive Directors are aligned with the overall performance of the Group. As such, the Committee determined that no discretionary adjustments (either upward or downward) would be required from the formulaic outcomes of the annual bonus and BIP.

Annual bonus

Headline operating profit and cash flow are currently the key internal financial metrics and therefore form the core annual bonus metrics. The Group achieved headline operating profit at constant currency of £130.9m and headline operating cash flow at constant currency of £143.7m. The personal scorecard element of the bonus primarily reflects how Executive Directors have delivered on our strategic goals and specific critical initiatives. Further details on the outcomes of the personal scorecards are set out on page 83.

Stephen Harris, Ben Fidler and Dominique Yates earned a bonus equal to 98.2%, 98.6% and 96.1% of maximum respectively. Dominique Yates' bonus was pro-rated for the time served as Chief Financial Officer during 2023. See page 82 for details on the application of the bonus deferral.

For 2024, the Committee has amended the annual bonus structure, by introducing a new ESG metric. This change recognises the importance placed by the Board on the Group's long-term sustainability goals and takes into consideration the feedback received from stakeholders.

Bodycote Incentive Plan (BIP)

The 2021 BIP awards were based on performance against return on capital employed (ROCE) (50%) and headline earnings per share (EPS) (50%) targets over a three-year period ended 31 December 2023. This award vested at 26.9% of the maximum. Further details are set out on page 84.

Employee engagement

We operate Employee Engagement Groups (see page 62 of the Corporate Governance Statement), where a wide range of topics are actively discussed with employees, including the remuneration and employment conditions of all employees. Feedback from these Employee Engagement Groups, alongside information provided by the Human Resources function, on pay and conditions across the Group, in addition to employee satisfaction surveys, are considered by the Committee as part of its discussions and decision-making process in relation to executive remuneration.

Annual General Meeting (AGM)

Our Annual Report on Remuneration, which summarises the remuneration outcomes for 2023 and explains how we intend to apply the policy during 2024 and beyond, will be subject to an advisory shareholder vote at the AGM to be held on 30 May 2024. I will look forward to receiving your support at this meeting, where I will be pleased to answer any questions you may have on this report or any of the Committee's activities.

Conclusion

I trust the information presented in this report enables our shareholders to understand both how we have operated our Directors' Remuneration Policy over the year and the rationale for our decision-making. We believe that the Policy operated as intended and we consider that the remuneration received by Executive Directors during the year was appropriate, taking into account Group and personal performance, and the experience of shareholders and employees.

Cynthia Gordon
Chair of the Remuneration Committee
15 March 2024

Annual Report on Remuneration

Implementation of the Policy in 2024

Set out below is a summary of the key elements of the Policy for Executive Directors, together with how the Policy is intended to be implemented in 2024.

	Key features	Implementation for 2024
Salary	– Base salaries are reviewed in January every year – Salary reviews are based on role, experience, performance, internal increases and the external market	– Stephen Harris will receive a salary of £696,181, an increase of 4.5% (2023: £665,245). – Ben Fidler will receive a salary of £522,500, an increase of 4.5% (2023: £500,000). – In determining the salary increases for Stephen Harris and Ben Fidler, the Committee had regard to the average increases awarded to employees across the Czech Republic and United Kingdom (the respective countries where they each live and work) and Western Europe. The average budgeted increases awarded to employees was 5% across the Czech Republic, 4.5% across the UK and 4.14% across Western Europe. With these increases in mind, the Committee considered a 4.5% increase for Stephen Harris and Ben Fidler to be appropriate. The Committee also considered Stephen Harris' commitment to ensure a successful transition of the Group Chief Executive role, including agreeing to stay in role until 30 May 2024, when determining his salary increase. – Jim Fairbairn was appointed on a salary of £620,000.
Benefits	– A range of cash benefits and benefits-in-kind	– In line with benefits provided in 2023. – Jim Fairbairn will receive a one-off relocation allowance of £30,000 following his appointment.
Pension	– Contribution to the Company's defined contribution scheme, or cash equivalent	– Stephen Harris receives a cash equivalent equal to 23.5% of base salary. This is aligned with the Company pension contributions of the Czech Republic workforce, the country where he lives and works. – Jim Fairbairn and Ben Fidler will receive a cash equivalent equal to 10% of base salary. This is aligned with the Company pension contributions of the United Kingdom workforce, the country where they each live and work.
Annual bonus	– Maximum opportunity of 200%, 175% and 150% of base salary for the current Group Chief Executive, the Group Chief Executive designate and Chief Financial Officer respectively – At least 70% of the bonus will be based on financial performance with the remainder based on non-financial strategic and/or personal metrics – 35% of any bonus earned is ordinarily deferred into shares for three years, conditional on continued employment – The annual bonus is subject to malus and clawback provisions as set out in more detail in our Remuneration Policy	– Maximum opportunity of 200% of base salary for Stephen Harris, pro-rated for the time served as Group Chief Executive Officer during the year. – Maximum opportunity of 175% of base salary for Jim Fairbairn pro-rated for the time served as Group Chief Executive (including as designate) during the year. – Maximum opportunity of 150% of base salary for Ben Fidler. – The annual bonus will be split 65% in respect of headline operating profit, 10% in respect of headline operating cash flow, 5% in respect of ESG targets and 20% on personal strategic objectives. – Performance targets are considered commercially sensitive and will be fully disclosed in the 2024 Directors' Remuneration Report.
Bodycote Incentive Plan (BIP)	– Annual grants up to 200% of base salary, subject to a three-year performance period and two-year holding period	– Maximum opportunity of 175% of base salary for all Executive Directors. Stephen Harris' and Jim Fairbairn's opportunity will be pro-rated for time served as Group Chief Executive (including as designate) during the vesting period. – Awards are based on performance against ROCE (50%) and headline EPS (50%) targets over a three-year period ending 31 December 2026. – Performance targets are set out on page 84.
Shareholding requirement	– Executive Directors are required to build up a holding of 200% of base salary over five years – Post-employment shareholding requirements also apply	– Stephen Harris has met the shareholding requirement. – Jim Fairbairn and Ben Fidler will work towards building their shareholdings.

Directors' report on remuneration continued

2024 BIP awards

The targets for the 2024 BIP awards are disclosed below. The Committee considers the targets to be appropriately stretching taking into account internal and external forecasts, the challenging market conditions, and the continued level of uncertainty.

	ROCE for 2026[1]		Headline EPS for 2026	
	Performance target	**Vesting of element (% of maximum)**	**Performance target**	**Vesting of element (% of maximum)**
Threshold performance	15%	25.0%	61.0p	25.0%
Target performance	19%	57.1%	65.0p	57.1%
Maximum performance	21%	100.0%	69.0p	100.0%

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the goodwill existing as at the start of the performance period (1 January 2024) only.

If headline EPS at the end of the performance period is below 51.8p, then no awards will vest. BIP awards are subject to malus and clawback provisions as set out in more detail in our Directors' Remuneration Policy. Furthermore, the Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance, which will include consideration of any potential 'windfall gains' at the point of vesting.

Buy-out awards to be granted to Jim Fairbairn

As noted on page 77, the Committee has agreed to buy out Jim Fairbairn's in-flight long-term incentive awards which were forfeited by him on leaving his previous employer. The Committee, with the support of its remuneration advisors, carried out a detailed review of the in-flight long-term incentive awards which were forfeited, including obtaining award certificates and confirmation of values forfeited. Jim Fairbairn was due to receive a cash payment of over £1,000,000 in April 2024 from a proportion of his in-flight long-term incentive awards based on performance achieved against targets. The expected value of his remaining in-flight long-term incentive awards (based on expected performance against targets) was circa £400,000, which were scheduled to vest in April 2025 and April 2026. The Committee has agreed to grant the following buy-out award, which will be granted as conditional shares, to Jim Fairbairn:

	Grant date face value of award	Vesting date of award
Tranche 1	£620,000	11 March 2025 (first anniversary of appointment)
Tranche 2	£155,000	11 March 2026 (second anniversary of appointment)
Tranche 3	£155,000	11 March 2027 (third anniversary of appointment)
Total	**£930,000**	

The Committee considers that the value and structure of the buy-out award is appropriate and has been determined in accordance with the terms of the Directors' Remuneration Policy (see page 82 of the 2021 Annual Report), noting that the grant date face value of the buy-out award is considerably less than the value of the in-flight long-term incentive awards forfeited and the vesting periods of the buy-out award are longer compared to the in-flight long-term incentive awards forfeited. This buy-out award will be made in March 2024, following his appointment and subject to the Company's share dealing code restrictions.

Jim Fairbairn will be expected to retain the shares following vesting (net of tax) to support the build-up of his shareholding towards the Company's shareholding requirement. The vesting of awards will be subject to his continued employment. No dividend equivalents will be payable in respect of those shares that vest.

Auditable section

This section provides details of remuneration outcomes for Directors who served during the financial year ended 31 December 2023.

Total single figure table

		Fixed pay				Variable pay				
	Financial year	Salary/ fees (£000)	Pension (£000)	Taxable benefits[9] (£000)	Subtotal (£000)	Annual bonus[10] (£000)	BIP (£000)	Buy-out award (£000)	Subtotal (£000)	**Total (£000)**
Executive Directors										
S.C. Harris	2023	665	156	41	862	1,306	231[11]	–	1,537	**2,399**
	2022	634	149	41	824	767	18[12]	–	785	**1,609**
B. Fidler[1]	2023	422	42	14	478	630	–	1,036[13]	1,666	**2,144**
	2022	–	–	–	–	–	–	–	–	**–**
Non-Executive Directors										
D. Dayan	2023	289	–	–	289	–	–	–	–	**289**
	2022	275	–	–	275	–	–	–	–	**275**
P. Larmon[2]	2023	83	–	–	83	–	–	–	–	**83**
	2022	73	–	–	73	–	–	–	–	**73**
K. Boyd[3]	2023	79	–	–	79	–	–	–	–	**79**
	2022	71	–	–	71	–	–	–	–	**71**
L. Chahbazi	2023	65	–	–	65	–	–	–	–	**65**
	2022	62	–	–	62	–	–	–	–	**62**
C. Gordon[4]	2023	73	–	–	73	–	–	–	–	**73**
	2022	36	–	–	36	–	–	–	–	**36**
B. Muntañola[5]	2023	22	–	–	22	–	–	–	–	**22**
	2022	–	–	–	–	–	–	–	–	**–**
Former Directors										
D. Yates[6]	2023	149	35	10	194	212	124[11]	–	336	**530**
	2022	425	100	29	554	374	13[12]	–	387	**941**
I.B. Duncan[7]	2023	62	–	–	62	–	–	–	–	**62**
	2022	77	–	–	77	–	–	–	–	**77**
E. Lindqvist[8]	2023	33	–	–	33	–	–	–	–	**33**
	2022	75	–	–	75	–	–	–	–	**75**

Notes accompanying the total single figure table:

1 Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023. He became Chief Financial Officer on 1 May 2023.

2 Patrick Larmon was appointed as Senior Independent Director on 31 May 2023 in succession to Ian Duncan.

3 Kevin Boyd was appointed Chair of the Audit Committee on 25 May 2022 in succession to Ian Duncan.

4 Cynthia Gordon was appointed to the Board on 1 June 2022. She was appointed as Chair of the Remuneration Committee on 31 May 2023 in succession to Eva Lindqvist.

5 Beatriz García-Cos Muntañola was appointed to the Board on 1 September 2023.

6 Dominique Yates stepped down as Chief Financial Officer on 30 April 2023.

7 Ian Duncan stepped down from the Board on 17 November 2023.

8 Eva Lindqvist stepped down from the Board on 31 May 2023.

9 Taxable benefits consist of company car (or allowance), family level private medical insurance, life insurance cover and sick pay.

10 See page 82 for the application of bonus deferral.

11 The BIP awards granted on 15 April 2021 with a performance period ending on 31 December 2023 will vest in March 2024 at 26.9% based on the outcome of the performance targets. The estimated value at vesting is based on the average share price from 1 October 2023 to 31 December 2023. Dividend equivalents are included in the estimated value at vesting (S.C. Harris: £22,621, D. Yates: £12,137).

12 The value relating to the BIP awards granted on 23 March 2020 and which vested on 23 March 2023 have been revised from the figures included in the 2022 report from £16,000 to £18,000 in relation to the award granted to S.C. Harris, and from £12,000 to £13,000 in relation to the award granted to D. Yates, which are now based on the mid-market closing share price on the vesting date of £6.29. The share price at the grant date was £5.32, reflecting a share price increase of £0.97 between the grant date and vesting date. The proportion of value at vesting attributable to share price appreciation is therefore 15%. The Committee did not exercise discretion to adjust the vesting outcome in respect of the share price appreciation.

13 As disclosed on page 68 of the 2022 Directors' Remuneration Report, the Committee agreed to buy out the deferred portion of Ben Fidler's 2022 annual bonus and in-flight share incentives which were forfeited by him on leaving his previous employer. The value of his buy-out award was based on the number of shares subject to the buy-out award (162,417) multiplied by the three-day volume weighted average share price for 22, 23 and 24 February 2023 of £6.376. These shares will vest between March 2023 and March 2025.

Directors' report on remuneration continued

Pension

Stephen Harris and Dominique Yates received a pension contribution or salary supplement in lieu of pension at a rate of 23.5% of base salary. Ben Fidler received a pension contribution of 10% of base salary. This is aligned with the Company pension contributions of the workforce where the Executive Directors work and live.

Taxable benefits

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

Executive Director	Car/car allowance	Fuel	Healthcare
S.C. Harris	£13,600	£2,400	£24,525
B. Fidler	£10,138	£1,014	£2,516
D. Yates	£4,000	£400	£5,320

Incentive outcomes for 2023

Annual bonus

The maximum annual bonus opportunity for Stephen Harris, Ben Fidler and Dominique Yates was 200% of salary, 150% of salary and 150% of salary, respectively. As disclosed in the 2022 Directors' Remuneration Report, Dominique Yates was eligible to receive a bonus pro-rated for the time served as Chief Financial Officer during 2023.

The annual bonus for 2023 was split 77% in respect of headline operating profit, 10% in respect of headline operating cash flow and 13% on personal strategic objectives. These performance conditions and their respective weightings reflected the Committee's belief that any incentive compensation should be linked both to the overall performance of the Group and to those areas of the business that the relevant individual can directly influence.

Stretching targets were set in the context of challenging market conditions. Following strong performance in 2023, Stephen Harris, Ben Fidler and Dominique Yates earned a bonus equal to 98.2%, 98.6% and 96.1% of maximum respectively.

For Stephen Harris and Ben Fidler, 35% of the amount earned will be deferred into shares. Ben Fidler's deferred share award will vest in three years subject to continued employment. Stephen Harris' deferred share award will vest at the time he steps down as Group Chief Executive and retires from the Board (see page 85).

Dominique Yates stepped down as Chief Financial Officer and retired from the Board on 30 April 2023. The Committee agreed to pay any bonus earned by him fully in cash at the usual time in 2024.

The performance targets and actual performance are set out below.

						S.C Harris		B. Fidler		D. Yates[2]	
	% of award	Threshold	Target	Maximum	Actual performance achieved[1]	% of max	% of salary	% of max	% of salary	% of max	% of salary
Headline operating profit	77%	£107m	£115m	£123m	£130.9m	100%	154%	100%	115.5%	100%	115.5%
Headline operating cash flow	10%	£110.5m	£118.5m	£118.5m	£143.7m	100%	20%	100%	15%	100%	15%
Personal score card	13%				see page 83	86%	22.4%	89%	17.4%	70%	13.7%
Total						**98.2%**	**196.4%**	**98.6%**	**147.9%**	**96.1%**	**144.2%**

1 Figures quoted are at constant currency rates.

2 Payout is pro-rated between threshold, target and maximum as follows: Headline operating profit (threshold 0%, target 60%, maximum 100%) and Headline operating cash flow (threshold 0%, target and maximum 100%).

Personal scorecards

S.C. Harris		Link to strategy
Overview	For 2023, the Group Chief Executive's objectives were set with focus on continuing to drive Group strategy implementation forward. He was also charged with the development and retention of the Group Executive team, including recruitment, on-boarding and training of executives. Leadership of the Enterprise Resource Planning (ERP) project was to continue, in addition to systematically improving asset management and capital investment implementation.	1 2 3 4 5
Key achievements in the year	Following the announcement that he would be stepping down from the Board, the Group Chief Executive continued to ensure the management team remained focused throughout the year, resulting in the delivery of strong revenue and profitability growth in 2023. He continued to strengthen the executive management team, with recruitment of new members completed successfully and the new executives successfully onboarded during the year. The focus on driving the implementation of Group strategy resulted in expansionary capex increasing by 11% compared to 2022, with 80% of this capex focused on the strategic priorities of Emerging Markets, Specialist Technologies, Electric Vehicles and Aerospace. Substantial new Electric Vehicle projects were secured in the Emerging Markets. Double digit growth was achieved in Aerospace and Specialist Technologies. Progress was made on the ERP implementation programme. Overall, he achieved or made significant progress on all of his objectives.	
Rating	After reviewing his scorecard performance and, in particular taking into consideration the additional achievements completed during the year, the Chairman and the Committee agreed with an overall rating, which equated to a bonus outcome of 86%.	

B. Fidler		
Overview	For 2023 the Chief Financial Officer's objectives included the development of the Enterprise Resource Planning (ERP) project; the establishment of a new London based corporate office; the delivery of improvements in Group cash conversion year-on-year; the strengthening of the Group Finance function; and the establishment of a revised energy hedging policy.	4 5
Key achievements in the year	The ERP programme was strengthened during 2023, with completion dates advanced, reductions in both capex and opex expenditure achieved and a new pilot programme well underway. A new London office has been established. Cash flow and cash conversion were substantially improved. The bench strength of the Group Finance function was improved and the implementation of a revised energy hedging policy framework that better suits increased volatility in the energy markets is well underway.	
Rating	Mr Fidler's detailed scorecard was reviewed by the Group Chief Executive and the Committee, assessing the achievement of each scorecard objective. Following this review, the Committee agreed with the rating, which equated to a bonus outcome of 89%.	

D. Yates		
Overview	For 2023, prior to his departure, objectives set were for Mr Yates relating to the on-boarding of a successor which would result in a successful transition. He was charged with the continued leadership of the Group Finance function during the transition period and the ongoing leadership of the ERP programme, including progress on cost accounting and data warehousing.	5
Key achievements in the year	The new Chief Financial Officer designate joined the Company in February 2023 and following an orderly and successful transition process, formally took over the role on 1 May 2023. The ERP programme was strengthened during 2023, with implementation progressed.	
Rating	The Committee assessed achievement for all personal scorecard objectives, this equated to a bonus outcome of 70%.	

1 Safety and Climate Change
2 Capitalising on and investing in our Specialist Technologies
3 Investing in Emerging Markets
4 Investing in structural growth opportunities
5 Driving operational improvement
6 Acquisitions

Directors' report on remuneration continued

Bodycote Incentive Plan (BIP)

BIP awards vesting during the financial year

BIP awards granted on 15 April 2021 had a three-year performance period ended 31 December 2023, with 50% of the award subject to ROCE targets and 50% subject to headline EPS targets. Furthermore, if headline EPS at the end of the performance period was below 36.0p, then no awards would vest. The underpin target of 36.0p together with the ROCE threshold target were achieved. The threshold, target and maximum targets along with performance achieved and the vesting outcome are set out in the table below.

	ROCE for 2023[1]		Headline EPS for 2023	
	Performance target	Vesting of element (% of max)[2]	Performance target	Vesting of element (% of max)[2]
Threshold performance	13.0%	0%	42.00p	0%
Target performance	17.0%	57.1%	55.00p	57.1%
Maximum performance	19.5%	100%	64.00p	100%
Performance achieved	**14.8%**	**12.9%**	**48.40p**	**14.1%**

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the goodwill existing as at the start of the performance period (1 January 2021) only.

2 Figures have been rounded to one decimal place.

The table below sets out the 2021 BIP outcome for Stephen Harris and Dominique Yates.

	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Dividend equivalents	Total estimated value of awards on vesting	Vesting date	End of holding period
S.C. Harris	131,106	31 Dec 2023	26.9%	35,297	£22,621	£231,106[1]	15 Mar 2024	March 2026
D. Yates	70,344[2]	31 Dec 2023	26.9%	18,938	£12,137	£123,996[1]	15 Mar 2024	March 2026

1 The estimated value at vesting is based on the average share price from 1 October 2023 to 31 December 2023 (£5.9066). The share price at the grant date was £7.972.

2 Dominique Yates' award was pro-rated for time served as Chief Financial Officer during the vesting period.

BIP awards granted during the financial year

Awards consisting of conditional shares were granted to Stephen Harris, Ben Fidler and Dominique Yates on 23 March 2023 equivalent in value to 175% of their base salaries. The performance period will end on 31 December 2025. As disclosed in the 2022 Directors' Remuneration Report, Dominique Yates award will be pro-rated for the time served as Chief Financial Officer during the vesting period.

Awards are subject to continued employment and the achievement of ROCE and headline EPS growth performance targets, as summarised in the table below. The Committee considered the targets to be appropriately stretching taking into account internal and external forecasts at the time, the challenging market conditions and the continued level of uncertainty faced by the business over the next three years.

	ROCE for 2025[1]		Headline EPS for 2025	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	14.0%	0.0%	56.0p	0.0%
Threshold performance	18.9%	57.1%	64.0p	57.1%
Maximum performance	20.0%	100.0%	70.0p	100.0%

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the goodwill existing as at the start of the performance period (1 January 2023) only.

If headline EPS at the end of the performance period is below 47.5p, then no awards will vest. Furthermore, the Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance.

Dividend equivalents are payable in respect of those shares that vest. Shares that vest are subject to a two-year post-vesting holding period.

The number of awards that were granted to the Executive Directors during the year is set out below:

	Grant date	Number of shares granted	Market price at grant date[1]	Face value at grant date
S.C. Harris	23 March 2023	177,625	£6.242	£1,108,735
B. Fidler	23 March 2023	140,179	£6.242	£874,997
D. Yates[2]	23 March 2023	119,235	£6.242	£744,265

1 The three-day volume weighted average share price following the announcement of results for 2022 (20, 21 and 22 March 2023).

2 Dominique Yates was granted a BIP award of 119,235 shares equivalent to 175% of his salary. This 2023 BIP award was pro-rated for time served as Chief Financial Officer. The number of shares granted after the application of the time pro-rating was 13,248, which will remain subject to the achievement of performance conditions.

Buy-out awards granted to Ben Fidler during the financial year

As disclosed in the 2022 Directors' Remuneration Report, the Committee agreed to buy out Ben Fidler's 2022 annual bonus (deferred proportion) and in-flight share incentives which had been forfeited by him on leaving his previous employer. The buy-out awards were granted on 31 March 2023 and have been structured on a like-for-like basis to reflect the value and the remainder of the vesting periods for incentives which were forfeited, in accordance with the terms of the Directors' Remuneration Policy (see page 82 of the 2021 Annual Report). The Committee carried out a detailed review of the incentives which had been forfeited, including obtaining award certificates and confirmation of values forfeited. Details of the buy-out are as follows:

Forfeited remuneration	Number of Bodycote shares subject to the award[1]	Vesting date of award[6]
Deferred proportion of 2022 annual bonus that would have vested in March 2025 subject to continued employment	63,906[2]	31 March 2025
2017 performance shares that would have vested in March 2023 subject to continued employment	2,437[3]	31 March 2023
2017 restricted shares that would have vested in March 2023 subject to continued employment	1,706[4]	31 March 2023
2022 restricted shares that would have vested in March 2024 subject to continued employment	94,368[5]	8 March 2024
Total	**162,417**	

1 The number of shares subject to award was calculated based on a share price of £6.376 being the three-day volume weighted average share price for 22, 23 and 24 February 2023.
2 The grant date face value is £407,465, which reflects the value of the deferred proportion of the 2022 annual bonus forfeited.
3 The grant date face value is £15,538, which reflects the value (taking into account performance achieved against targets) of the 2017 performance shares forfeited.
4 The grant date face value is £10,877, which reflects the value of the 2017 restricted shares forfeited.
5 The grant date face value is £601,690, which reflects the value of the 2022 restricted shares forfeited.
6 The vesting of awards is subject to continued employment. No dividend equivalents will be payable in respect of those shares that vest.

Ben Fidler will be expected to retain the shares following vesting (net of tax) to support the build-up of his shareholding towards achievement of the Company's shareholding requirement.

Executive Director changes

Stephen Harris will step down as Group Chief Executive and retire from the Board and the Company on 30 May 2024, following an orderly transition to his successor. The treatment of Stephen Harris' remuneration arrangements is set out in the table below. This has been agreed by the Committee, in accordance with the terms of the Directors' Remuneration Policy (see page 84 of the 2021 Annual Report), taking into account his significant contribution to the Group over the last sixteen years and his commitment to ensure a successful transition of the Group Chief Executive role.

Element	Agreed treatment
Base salary, benefits and pension	Will continue to receive his salary, benefits and pension until he steps down as Group Chief Executive.
Annual bonus	Will be eligible to receive a bonus equal to 200% of salary for the year ended 31 December 2024 pro-rated for time served as Group Chief Executive during the year. Any bonus earned will be paid fully in cash at the usual time in 2025, following the assessment of the Group's performance for the full 2024 year.
Deferred bonus awards	Unvested deferred bonus awards will vest in full following him stepping down as Group Chief Executive on 30 May 2024.
BIP awards	Will be granted a BIP award in 2024 equal to 175% of salary pro-rated for time served as Group Chief Executive during the vesting period. Unvested BIP awards will: – continue to vest in accordance with their normal vesting timetable, subject to the achievement of the relevant performance metrics; and – be pro-rated for time served as Group Chief Executive during the relevant vesting periods. Any shares that vest will be subject to a two-year post-vesting holding period.
Other	Will be paid a contribution to his legal fees in respect of him stepping down as Group Chief Executive up to a maximum of £20,000.

The Committee considers that paying the 2024 annual bonus fully in cash and vesting deferred bonus awards in full following Stephen Harris stepping down as Group Chief Executive is appropriate, noting that he has agreed to hold shares equivalent to at least 200% of salary for two years following him stepping down as Group Chief Executive. This is in excess of the number of shares that he is required to hold under the post-employment shareholding requirement, as this requirement only applies to shares which have been acquired pursuant to deferred share awards or BIP awards granted on or after 1 January 2022.

Loss of office

Dominique Yates stepped down as Chief Financial Officer and retired from the Board and the Company on 30 April 2023. The treatment of his remuneration arrangements were disclosed in the 2022 Directors' Remuneration Report. As set out on page 84, Dominique Yates was granted a BIP award in March 2023 of 119,235 shares equivalent to 175% of his salary. This award was subsequently pro-rated for time served as Chief Financial Officer during 2023. The number of shares granted after the application of the time pro-rating was 13,248 shares, which will remain subject to the achievement of performance conditions.

Payments to past Directors

No payments to past Directors were made during the year.

Directors' report on remuneration continued

Chair and Non-Executive Directors' fees

Chair of the Board and other Non-Executive Directors fees were as follows:

	Fee for 2023	Fee for 2022	% increase
Base fee for Non-Executive Chair	£288,750	£275,000	5%
Base fee for Non-Executive Directors	£65,477	£62,359	5%
Remuneration Committee Chair/Audit Committee Chair	£13,650	£13,000	5%
Senior Independent Director	£10,805	£10,291	5%
Chair of Employee Engagement Groups	£10,805	£10,291	5%

At 31 December 2023 the aggregate annual fees for all Non-Executive Directors, including the Chair, was £744,172, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £1,000,000 p.a.

Directors' shareholdings and scheme interests

The Board operates a shareholding retention policy under which Executive Directors and other senior executives are expected, within five years of appointment, to build up a shareholding in the Company. For the purposes of this requirement, only beneficially owned shares and the net of tax value of unvested share awards which are not subject to performance conditions will be counted.

The shareholding requirement for the Executive Directors is 200% of salary.

The interests in ordinary shares of Directors and their connected persons as of 31 December 2023 (or date of stepping down from the Board if earlier), including any interests awarded under the annual bonus or BIP and buy-out awards granted to Ben Fidler, are presented below along with whether Executive Directors have met the shareholding guidelines.

	Counted towards the shareholding requirement			Not counted towards the shareholding requirement	
	Beneficially owned	Deferred shares granted under the annual bonus[1]	Unvested buy-out awards[1]	Shares subject to performance conditions BIP[2]	Shareholding requirement met
Executive Directors					
S.C. Harris (200% of salary min. holding requirement)	485,085	102,036[7]	–	461,929[9]	Yes
B. Fidler (200% of salary min. holding requirement)[2]	–	–	158,274[8]	–	No
Non-Executive Directors					
D. Dayan	61,500	–	–	–	n/a
P. Larmon	15,000	–	–	–	n/a
L. Chahbazi	–	–	–	–	n/a
K. Boyd	8,800	–	–	–	n/a
C. Gordon	1,708	–	–	–	n/a
B. Muntañola[3]	–	–	–	–	n/a
Former Directors					
D. Yates (200% of salary min. holding requirement)[4]	351,317	51,474[7]	–	130,562[9]	Yes
I.B. Duncan[5]	–	–	–	–	n/a
E. Lindqvist[6]	12,200	–	–	–	n/a

1 Vesting of the deferred shares granted under the annual bonus and unvested buy-out awards are subject to continued employment only.

2 Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023 and became Chief Financial Officer on 1 May 2023.

3 Beatriz García-Cos Muntañola was appointed to the Board on 1 September 2023.

4 Dominique Yates stepped down as Chief Financial Officer on 30 April 2023.

5 Ian Duncan stepped down from the Board on 17 November 2023.

6 Eva Lindqvist stepped down from the Board on 31 May 2023.

7 Figures relate to deferred shares granted in 2022 and 2023.

8 Ben Fidler was granted 162,417 shares under a buy-out award (see page 85). 4,143 shares vested during 2023 and these are currently held by the Employee Benefit Trust. 158,274 shares remain unvested.

9 Figures relate to unvested awards granted under the BIP in 2021, 2022 and 2023. For Dominique Yates, the outstanding awards have been prorated to his date of leaving. The BIP awards granted on 15 April 2021 will vest at 26.9% of maximum in March 2024.

As at 15 March 2024, the Company has not been advised of any changes to the interests of Directors and their connected persons as set out in the above table.

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

The interests of the Executive Directors in the Company's share plans as at 31 December 2023 (or date of stepping down from the Board if earlier) are as follows.

		Interests as at 1 January 2023	Granted in year	Vested in year	Lapsed in year	Interests as at 31 December 2023
BIP	S.C. Harris	467,915	177,625	2,623	180,988	461,929[3]
	B. Fidler[1]	–	140,179	–	–	140,179
	D. Yates[2]	328,610	119,235	1,892	315,391[2]	130,562[3]
Deferred bonus shares	S.C. Harris	96,077	42,988[4]	37,029	–	102,036
	B. Fidler[1]	–	–	–	–	–
	D. Yates[2]	50,196	21,006[4]	19,728	–	51,474
Buy-out awards	B. Fidler[1]	–	162,417	4,143	–	158,274

1 Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023 and became Chief Financial Officer on 1 May 2023.

2 Dominique Yates stepped down as Chief Financial Officer on 30 April 2023. All outstanding BIP awards have been pro-rated for time served as Chief Financial Officer during the relevant vesting periods. The number of shares lapsed in the year included in the table is after the application of time pro-rating.

3 The BIP awards granted on 15 April 2021 will vest at 26.9% of maximum in March 2024.

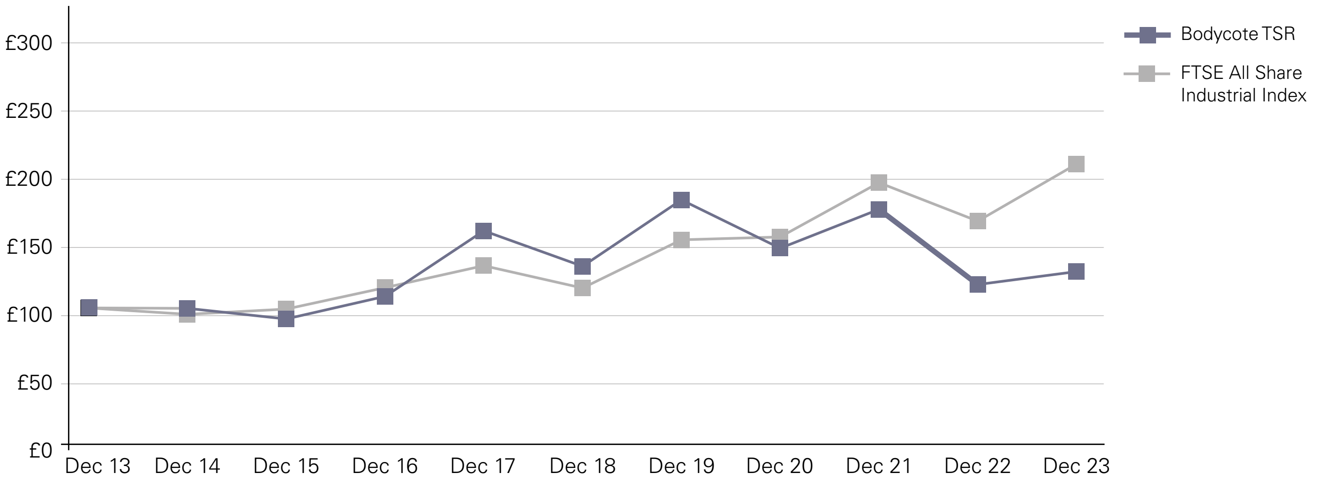
4 The grant date face value of the deferred bonus shares granted on 23 March 2023 is £268,331 for Stephen Harris and £131,119 for Dominique Yates. This is based on a share price of £6.242, being the three-day volume weighted average share price following the announcement of the 2022 year-end results (20, 21 and 22 March 2023).

End of auditable section

Comparison of overall performance and pay

The chart below shows the value over the last 10 financial years of £100 invested in Bodycote plc compared with that of £100 invested in the FTSE All Share Industrial index. The Committee has chosen this index as it is a broad market index of which Bodycote plc is a constituent and reflects the wider sector in which the Group operates. The points plotted represent the values at each financial year end.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over 10 years



The table below shows how total remuneration for the Group Chief Executive, Stephen Harris, developed over the last 10 years.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Single figure of remuneration (£000)	1,803	771	875	2,280	2,728	1,862	783	1,969	1,608	2,399
Annual bonus (% of max)	73%	20%	19%	98%	68%	50%	0%	96%	61%	98%
Long-term incentive (% of max)	44%	0%	0%	48%	89%	84%	0%	0%	1%	27%

Directors' report on remuneration continued

Percentage change in remuneration

The table below sets out the annual percentage change in remuneration for each of the Directors compared to that for an average employee.

	% change in salary/fees				% change in benefits				% change in annual bonus			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
Executive Director												
S.C. Harris	7.0%	2.0%	4.0%	5.0%	2.8%	0.1%	1.6%	3.9%	(100%)	100%	(35%)	70.4%
B. Fidler[1]	–	–	–	–	–	–	–	–	–	–	–	–
D. Yates[2]	2.3%	2.0%	1.2%	(65%)	0.8%	(0.5)%	0%	(65%)	(100%)	100%	(35%)	(43%)
Non-Executive Directors												
D. Dayan[3]	–	–	–	5.0%	–	–	–	–	–	–	–	–
P. Larmon[4]	3.0%	2.0%	3.0%	14.0%	(83.2%)	1,935%	(100%)	–	–	–	–	–
L. Chahbazi	3.0%	2.0%	3.0%	5.0%	(70.6%)	19%	(100%)	–	–	–	–	–
K. Boyd[5]	–	2.0%	17.3%	11.0%		(8.3%)	(100%)	–	–	–	–	–
C. Gordon[6]	–	–	–	5.0%	–	–	–	–	–	–	–	–
B. Muntañola[7]	–	–	–	–	–	–	–	–	–	–	–	–
I.B. Duncan[8]	3.0%	2.0%	(4.4%)	(19%)	(61.5%)	23.4%	(100%)	–	–	–	–	–
E. Lindqvist[9]	3.0%	2.0%	6.8%	(56%)	(93.3%)	3,985%	(100%)	–	–	–	–	–
Average employee[10]	4.1%	2.9%	5.7%	6.9%	2.4%	10%	9.8%	10.8%	(100%)	100%	(9.2)%	6.9%

1 Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023 and became Chief Financial Officer on 1 May 2023.
2 Dominique Yates stepped down as Chief Financial Officer on 30 April 2023.
3 Daniel Dayan was appointed as Chair to the Board on 1 January 2022.
4 Patrick Larmon was appointed as Senior Independent Director on 31 May 2023 in succession to Ian Duncan.
5 Kevin Boyd was appointed to the Board on 1 September 2020. He was appointed as Chair of the Audit Committee on 25 May 2022 in succession to Ian Duncan.
6 Cynthia Gordon was appointed to the Board on 1 June 2022. She was appointed as Chair of the Remuneration Committee on 31 May 2023 in succession to Eva Lindqvist.
7 Beatriz García-Cos Muntañola was appointed to the Board on 1 September 2023.
8 Ian Duncan stepped down from the Board on 17 November 2023.
9 Eva Lindqvist stepped down from the Board on 31 May 2023.
10 The annual percentage change of the average remuneration of the listed parent entity employees (excluding Directors), calculated on a full-time equivalent basis.
11 Percentage change in Benefits is calculated on unrounded figures.
12 No bonuses were paid to Executive Directors or the Company's employees in respect of 2020.

Pay ratio of Group Chief Executive to UK average employee

The table below sets out the Group Chief Executive's remuneration as a ratio against the full-time equivalent remuneration of the 25th, 50th (median) and 75th percentile UK employees.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	71:1	56:1	39:1
2022	Option A	52:1	41:1	28:1
2021	Option A	69:1	52:1	36:1
2020	Option A	28:1	21:1	15:1
2019	Option A	70:1	55:1	40:1

The Group Chief Executive's remuneration is calculated on the same basis as the single figure of remuneration table set out on page 81. A substantial proportion of the Group Chief Executive's total remuneration is performance-related and delivered in shares. The ratios will therefore depend significantly on the Group Chief Executive's annual bonus and BIP outcomes, which may fluctuate year to year. The calculations for the representative employees were performed as at the final day of the relevant financial year.

Option A methodology was selected on the basis that it is considered to be a robust approach and is aligned with best practice and investor expectations.

2023 pay ratios have increased from 2022, returning to a more normal level, due to an increase in the Group Chief Executive's total remuneration. The increase in 2023 is primarily explained by the higher bonus outcome achievement of 98.2% of maximum opportunity (2022: 61%) and higher BIP outcome achievement of 26.9% of maximum opportunity (2022: 1%). In 2023 the proportion of the Group Chief Executive's bonus and BIP was 64% of total remuneration, in 2022 the Group Chief Executive's bonus and BIP remuneration equated to 49% of total remuneration.

Our broad remuneration policy reflects the diversity of cultures, legislative environments and employment markets of our geographical spread. However, in line with the UK reporting regulations we have reported solely on the UK employee population. The Board believes that the median pay ratio is consistent with the pay, reward and progression policies for the UK employee population.

Total pay and benefits used to calculate the ratios

The table below sets out the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

	Group Chief Executive (£)	25th percentile[1,2] (£)	Median[1,2] (£)	75th percentile[1,2] (£)
2023				
Total pay and benefits	2,399,484	33,712	42,542	61,294
Salary component	665,245	32,147	40,355	54,612

1 The UK employee percentile total pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year. The calculations are on the same basis as required for the Group Chief Executive's remuneration for single figure purposes. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension scheme. No other estimates or adjustments have been used in the calculations and no remuneration components have been omitted.

2 For employees employed on a part-time basis, their remuneration has been annualised to reflect the full-time equivalent.

Relative importance of pay spend

The table below sets out the total expenditure in relation to staff and employee costs and distributions to shareholders in 2022 and 2023.

	2023 (£m)	2022 (£m)	% change
Staff and employee costs	307.5	276.5	11.2%
Distribution to shareholders	40.6	38.5	5.5%

Committee membership

The Committee was chaired by Eva Lindqvist from 1 January to 31 May 2023. Cynthia Gordon was appointed Chair from 31 May 2023. The Committee also comprised Patrick Larmon, Kevin Boyd, Lili Chahbazi, Beatriz García-Cos Muntañola (from the date of her appointment to the Board on 1 September 2023) and Ian Duncan (to the date he stepped down from the Board on 17 November 2023). 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 2023 the Committee met five times to consider, amongst other matters:

Theme	Agenda items
Best practice	– Consideration of feedback from shareholders and proxy agencies following the 2023 AGM – Update on market practice and corporate governance
Executive Directors' and senior executives' remuneration	– Base salary increases – Granting annual bonus and BIP awards, including the setting of targets – Assessment of annual bonus and BIP outcomes
CEO succession	– Remuneration decisions in relation to CEO succession
Reporting	– Consideration and approval of the Directors' Remuneration Report

Service contracts and letters of appointment

Executive Directors are employed under service contracts of employment, the principal terms of these service contracts are set out below:

			Notice period		
Name	**Position**	**Effective date of contract**	**From Company**	**From Director**	**Termination**
B. Fidler	Chief Financial Officer (with effect 1 May 2023)	28 October 2022	12 months	12 months	Company has right to terminate on payment of a termination payment
D. Yates	Chief Financial Officer (retired 30 April 2023)	1 November 2016	12 months	12 months	Company has right to terminate on payment of a termination payment

Directors' report on remuneration continued

The Chair and Non-Executive Directors have letters of appointment that set out their duties and responsibilities. They do not have service contracts. The key terms of the appointments are set out below:

Name	Position	Date of original appointment	Date of last reappointment at AGM	Notice period
D. Dayan	Chair	1 January 2022	2023	6 months
P. Larmon	Senior Independent Director	13 September 2016	2023	6 months
K. Boyd	Non-Executive Director	1 September 2020	2023	6 months
L. Chahbazi	Non-Executive Director	1 January 2018	2023	6 months
C. Gordon	Non-Executive Director	1 June 2022	2023	6 months
B. Muntañola	Non-Executive Director	1 September 2023	–	6 months

In accordance with the Code, all Directors will seek annual reappointment by shareholders at each AGM. Service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours.

Addressing the factors in Provision 40 of the 2018 UK Corporate Governance Code

Our Policy is designed to support an effective pay-for-performance culture which enables the Company to attract, retain and motivate Executive Directors who have the necessary experience and expertise to execute our strategy and deliver value to shareholders. Below is an explanation of how the Committee has addressed the principles prescribed in Provision 40 of the UK Code when determining the Remuneration Policy.

Principle	How the Committee has addressed the principle
Clarity and simplicity	The Committee ensures that remuneration arrangements are transparent, comprising a simple incentive structure made up of fixed, short-term and long-term variable pay, that is commonplace in the market and best practice remuneration provisions. These elements provide a clear line of sight for both executives and shareholders with the variable pay elements providing stretching targets to drive the success of the business.
Risk	The Committee promotes long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive structure does not encourage Executive Directors to take inappropriate risks. Executive Directors are subject to within-employment and post-employment shareholding guidelines to further support sustainable decision-making. The Committee has recourse to recover incentive payments in certain circumstances.
Predictability	The 'illustration of application of remuneration policy' charts included on page 80 of our 2021 Annual Report indicate the potential values that may be earned through the remuneration arrangements to provide transparency around overall opportunities.
Proportionality	The Committee believes that the Remuneration Policy table clearly sets out how each element of remuneration links to the delivery of strategy. The disclosure of BIP performance targets provides a clear link between incentives and the long-term performance of the Company and the shareholder value created. The Committee has discretion to adjust incentive outcomes so that they fairly and accurately reflect the performance of the Company over the relevant performance period.
Alignment to culture	The Committee believes that the incentive arrangements are consistent with the Company's values: **Honesty and Transparency:** The incentive arrangements are simple, transparent and in line with market practice, facilitating understanding by all stakeholders. **Respect and Responsibility:** The Committee has recourse to recover incentive payments in certain circumstances. **Creating Value:** The incentives are calibrated to reward participants for delivering exceptional performance. The Committee reviews all outcomes for Executive Directors and has discretion to adjust outcomes where appropriate.

Advisers to the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte), which was formally appointed as Committee advisers from 1 January 2020, following a competitive tender process. Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK.

The Committee reviews the objectivity and independence of the advice it received from its remuneration consultants at a private meeting each year. The Committee is satisfied that the advice provided by Deloitte on executive remuneration is objective and independent, and that no conflict of interest arises as a result of these services.

The fees paid to Deloitte for its services to the Committee during the year, based on time and expenses, amounted to £47,750 excluding VAT. Deloitte also provided employee share plan advisory services, business tax services and financial advisory services to the Company during the year.

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 consulted with the Group Chief Executive and received recommendations from him in respect of his direct reports.

Statement of shareholder voting and shareholder engagement

The table below sets out the voting results of the advisory vote of the 2022 Directors' remuneration report received at the AGM held on 31 May 2023.

Annual Report on Remuneration including within the Directors' remuneration report

Number of votes cast (excluding abstentions)	For	Against	Abstentions
163,835,669	97.1%	2.9%	7,715

The table below sets out the voting results in respect of the resolution to approve the Directors' Remuneration Policy at the 2022 AGM.

Remuneration Policy report

Number of votes cast (excluding abstentions)	For	Against	Abstentions
120,988,831	77%	23%	11,802,612

The Committee recognises that more than 20% of votes were cast against this resolution at the AGM held in 2022. As a result, and in accordance with Provision 4 of the Code, engagement with key investors and proxy advisors was undertaken to better understand the views expressed. It was recognised that while the majority of shareholders were supportive of the key remuneration recommendations, the concerns raised primarily related to the Committee's approach to enshrining localised salary increases and pension positioning for Executive Directors within the Remuneration Policy. The context and rationale taken by the Committee was explained and it was confirmed that the approach taken remained fully consistent with typical market practice, with all amounts made in accordance with policy and in line with the Code.

As noted on page 77, ahead of submitting our Remuneration Policy for shareholder approval in 2025, a policy review will be undertaken, with input sought from shareholders during 2024.

Cynthia Gordon
Chair of the Remuneration Committee
15 March 2024

Directors' responsibilities statement

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance Report, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Independent auditors' report to the members of Bodycote plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Bodycote plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated balance sheet and the Company balance sheet as at 31 December 2023; the Consolidated income statement and the Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and the Company statements of changes in equity for the year then ended; the Group and the Company accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 2 to the consolidated financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Context

Bodycote plc is a global business operating in the thermal processing sector. The business operates in a number of countries around the world and provides services primarily to the automotive, general industrial, aerospace, defence and energy markets.

Overview

Audit scope

- The Group's financial statements are a consolidation of a number of reporting units (each of which were deemed to be components) representing the Group's trading entities around the world, its centralised functions and consolidation adjustment reporting units. The reporting units vary in size, and our approach to scoping considers those entities which are of most significance to the Group as a whole, in particular in North America and Europe. We also requested certain component teams to perform full scope audit procedures over additional components to ensure we achieved an appropriate level of audit coverage.

Key audit matters

- Valuation of goodwill (Group)
- Valuation of uncertain tax positions (Group)
- Valuation of the UK defined benefit pension scheme (Group and Company)

Materiality

- Overall Group materiality: £6,200,000 (2022: £6,000,000) based on professional judgement considering a number of potential benchmarks (specifically revenue and profit based benchmarks, both for the current year and over a number of years).
- Overall Company materiality: £4,300,000 (2022: £4,700,000) based on approximately 1% of total assets.
- Performance materiality: £4,650,000 (2022: £4,500,000) (Group) and £3,200,000 (2022: £3,525,000) (Company).

Independent auditors' report to the members of Bodycote plc continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill (Group)	
Refer to note 9 of the consolidated financial statements and the areas of focus in the Report of the Audit Committee. For the cash generating units ("CGUs") to which goodwill relates (which require an annual impairment test), the determination of the recoverable amount, being the higher of value in use ("VIU") and fair value less costs of disposal ("FVLCD"), requires judgement and estimation by management. This is because the determination of a recoverable amount includes management's consideration of key internal inputs and external market conditions such as future market volumes and pricing trends in those industries in which its customers operate, which impacts future cash flows, and the determination of the most appropriate discount rate. Notwithstanding the apparent decline in the impact of the COVID-19 pandemic, there remains ongoing uncertainty around the timing of recovery for many key sectors in which the Group operates, in particular due to the uncertainty associated with the impact on global supply chains, energy availability and prices, and broader cost inflation following the Russian invasion of Ukraine. Therefore, given the resulting effect of this area on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team, we considered the impairment assessment of goodwill to be a key audit matter. Management's assessment also included a "mid-term" growth period from years 6 to 10, reflecting their view that the business would not be at a steady state of growth by year 5 based on internal forecasts. Specifically, we identified the valuation of the North America ADE and North America AGI goodwill balances as significant audit risks due to their lower level of headroom relative to the carrying value of the CGUs and the material goodwill balances held in those CGUs.	We tested the integrity of management's impairment calculation and corroborated the 2024 forecast to the Board approved budget and for 2025 to 2028 inclusive to the Group's latest Board approved Financial Plan. We also assessed the assumptions made by management in the budget and understood management's process for forecasting longer term cash flows, in particular focusing on the assumptions used through to 2028, and the expected ongoing improvement in the Group's revenues and operating margin performance. We agreed the underlying carrying values of the CGUs to audited financial information. We challenged management's key assumptions for revenue, profit and cash flow forecasts by comparing them with third party industry market data, where available, and considered the allocation of central costs to the CGUs. We also performed look back testing to understand how accurate management has been in its forecasting historically. We assessed management's growth assumptions beyond year 5, using our valuations experts to compare management's long-term growth rate with economic forecasts. We also used our valuations experts to assess the reasonableness of the discount rates used by management, by independently calculating a range for this rate, and considered whether the rate used by management was within a supportable range. We used this independently calculated discount rate and our estimate of the long-term growth rate, alongside our view of certain other assumptions, to calculate our view of the recoverable amount. We specifically considered management's application of a mid-term growth rate to years 6 to 10 in its impairment assessment, and performed analysis by removing this assumption and applying a long-term growth rate to determine the terminal value from the fifth year of management's cash flow forecasts. This did not result in a different conclusion to that of management. We obtained management's sensitivity analyses, which showed the impact of its view of reasonably possible changes to key assumptions and performed our own sensitivity analyses. Our sensitivity analysis sought to cover the potential risks associated with climate change, inflationary pressures and geopolitical risks. Whilst we did not identify specific sensitivities for each item, we modelled what we considered to be suitably severe overall assumptions impacting margins and growth that took these factors into account. We considered the appropriateness of the disclosures in note 9 to the consolidated financial statements. Based on the procedures performed, we noted no material issues from our work.

Key audit matter	How our audit addressed the key audit matter
Valuation of uncertain tax positions (Group) The Group has operations in a number of geographical locations and as such is subject to multiple tax jurisdictions, giving rise to complexity in accounting for the Group's taxation. Refer to note 6 and 19 of the consolidated financial statements and the areas of focus in the Report of the Audit Committee. In particular, the interpretation of complex tax regulations and the unknown future outcome of pending rulings by the tax authorities results in the need to provide against a number of uncertain tax positions. The Group undertakes financing activities between jurisdictions and non-financing cross border transactions, which require judgement to determine the appropriate tax charge and any associated provisions. These transactions result in the recognition of material provisions for tax of £26.4 million (2022: £28.1 million), which have, therefore, been treated as a key audit matter.	Our audit work, which involved taxation audit specialists at the Group level, included the assessment of the Group's uncertain tax positions. Our assessment included considering the current status of new and historical tax assessments and investigations to monitor developments in ongoing disputes, in addition to reviewing correspondence with tax authorities. We considered external tax advice received by the Group where relevant, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest tax legislative developments. Where no advice was available, we understood management's rationale based on internal analysis and other supporting information. We also considered significant transactions to identify uncertain tax positions that may arise from those transactions. In assessing the adequacy of the tax provisions, we considered interest that could be applied by the local tax authorities. We also determined whether the tax provisions were recognised and measured in accordance with the relevant accounting standards. We considered the appropriateness of the related disclosures in notes 6 and 19 to the consolidated financial statements. Based on the procedures performed, we noted no material issues from our work.
Valuation of the UK defined benefit pension scheme (Group and Company) The Group operates a number of defined benefit pension schemes across different territories. Accounting for these schemes can be complex, and necessitates a higher level of audit effort. See the Group's accounting policies, note 26 of the consolidated financial statements and the areas of focus in the Report of the Audit Committee. The Group's net retirement benefit obligation is £11.1 million (2022: £10.9 million). This net position also includes the UK scheme, which had an accounting surplus of £4.9 million as at 31 December 2023, which (consistent with prior years) was unrecognised. The assets of the UK scheme total £67.6 million. Auditing the valuation of assets can be complex given the scheme invests in Pooled Investment Vehicles ("PIVs"), which may not have coterminous year ends with the Group's financial statements, or may contain underlying assets that are more complex to value. The obligations of the UK scheme total £62.7 million. The Group relies on management's experts to determine the valuation of the obligations, which involves estimation and judgement in selecting appropriate actuarial assumptions. Whilst the UK surplus remains unrecognised, an immaterial misstatement could lead to this surplus being eroded and result in pension balances needing to be recognised on the consolidated balance sheet in respect of the UK scheme. On this basis we identified the risk in relation to the valuation of the associated obligations for the UK pension scheme as elevated for the audit. Since this audit area in relation to the UK pension scheme involves relatively high audit effort for both the Group and the Company we have included it as a Key Audit Matter.	With respect to the UK scheme, which is our elevated audit risk in relation to the valuation of the associated liabilities, the following procedures were performed. We assessed the pension assumptions used to derive the scheme obligations, including discount rates, inflation and mortality, using our actuarial experts where necessary. We also considered and challenged the appropriateness of the actuarial assumptions against our internally developed benchmark ranges, finding them to be within an acceptable range. We performed testing to ensure that the obligations were consistent with the most recent funding valuations and that the movement in the obligations during the year was reasonable. While the valuation of the associated UK pension scheme assets was not part of our elevated audit risk, independent investment manager confirmations were obtained for all material PIVs and bank letters obtained for all scheme bank accounts. Where PIVs were determined to be more complex additional audit procedures were performed, including over year end transactions and assessing the latest internal controls report for the relevant investment manager. While also not part of our elevated risk, we assessed management's rationale for not recognising the surplus on the UK scheme, in line with accounting standards. We ensured that there had been no changes since previous years when the appropriateness of this judgement had been confirmed with our internal actuarial and accounting experts. We also considered the appropriateness of the related disclosures in note 26 of the consolidated financial statements. Based on the procedures performed, we noted no material issues from our work.

Independent auditors' report to the members of Bodycote plc continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at components by us, as the Group engagement team, or component auditors operating under our instruction.

We identified one component (2022: one) as financially significant (as defined within ISAs (UK)). We obtained full scope audit reporting from a further fifteen components (2022: twelve), where we concluded that the component engagement leader is a Key Audit Partner, and an additional seven (2022: seven) components where full scope audits were also performed. Together, these components were in twelve countries, representing the Group's principal businesses, and provided audit coverage of 78% of the Group's revenue (2022: 75%) and 77% of consolidated absolute profit before tax (2022: 73%).

Specified procedures over specific financial statement line items were performed at one further component (2022: one) and central testing was performed on selected items, such as goodwill, uncertain tax positions and the consolidation, primarily to ensure appropriate audit coverage.

The components included within our audit scope were determined based on each individual components' contribution to the Group's key financial statement line items (in particular revenue and profit before tax), and considerations relating to aggregation risk within the Group. Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude on whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with them throughout the audit cycle. The audit was conducted in a hybrid working environment, through remote working and virtual meetings, as well as in-person meetings with certain Key Audit Partners. The Group engagement team also reviewed selected audit working papers for certain in-scope component teams, including those where the engagement leader was determined to be a Key Audit Partner.

In addition, given the extent of testing performed by our Czech Republic team at the Group's Prague Shared Services Centre, which supports the financial accounting for the majority of the Group's European businesses, a working paper review was also conducted of this team's work.

The impact of climate risk on our audit

In planning our work, including identifying areas of audit risk and determining an appropriate response, we were mindful of the increased focus on the impact of climate change risk on companies and their financial reporting, and also that the Group has identified climate change as a principal risk. Climate change risk is expected to have an impact on the Group's business as the operations and strategy of the Group evolve to address the potential physical and transition risks that could arise and the opportunities associated with climate change, including from its customer base. Climate change-related initiatives and commitments impact the Group in a variety of ways, as described within the Annual Report. We challenged the completeness of management's climate risk assessment by considering the appropriateness of extending the cash flows as modelled in the Group's impairment assessment into perpetuity and assessing how management had considered the impact of the Group's sustainability initiatives on the cash flows included in this assessment.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – Group	**Financial statements – Company**
Overall materiality	£6,200,000 (2022: £6,000,000).	£4,300,000 (2022: £4,700,000).
How we determined it	Professional judgement considering a number of potential benchmarks (specifically revenue and profit based benchmarks, both for the current year and over a number of years).	Approximately 1% of total assets.
Rationale for benchmark applied	We considered a range of acceptable benchmarks for determining materiality. We selected a level of materiality that was within the range of outcomes suggested by these alternative benchmarks and reflected an appropriate increase on the prior year materiality level given the increased level of revenue and profit before tax. The materiality selected is equivalent to approximately 6% of current year profit before tax (2022: 6%).	The Company holds the Group's investments in subsidiary companies. The strength of the balance sheet is the key measure of financial health that is important to shareholders as this determines the Company's ability to pay dividends.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £500,000 and £3,800,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was approximately 75% (2022: 75%) of overall materiality, amounting to £4,650,000 (2022: £4,500,000) for the Group financial statements and £3,200,000 (2022: £3,525,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £310,000 (Group audit) (2022: £300,000) and £215,000 (Company audit) (2022: £235,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' assessment and understanding the assumptions used in the base case scenario and the severe but plausible downside scenario over the next twelve months;
- Agreeing the budget for 2024 used in the base case scenario to the Board approved budget and evaluating the appropriateness of key assumptions used in determining these cash flows. For the period of the assessment not covered by the budget, we agreed the forecasts to the Group's latest Board-approved Financial Plan and analysed the forecasts projected by management and considered these in the context of wider market data; and
- We assessed the appropriateness of the severe but plausible downside scenario adopted by management, including considering the relevant downside risks that the Group may face over the next twelve months.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Directors' report.

Directors' Remuneration

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

Independent auditors' report to the members of Bodycote plc continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates and judgements. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, Internal Audit and the Group's internal legal counsel, including consideration of potential instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported through the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Substantive testing of journal entries which met a defined risk criteria, focusing on where and how fraud could arise; and
- Challenging assumptions and judgements made by management in its accounting estimates or judgements, in particular in relation to the valuation of goodwill.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' report on remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 24 May 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 December 2019 to 31 December 2023.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Simon Morley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

15 March 2024

Consolidated income statement

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Revenue	1	**802.5**	743.6
Cost of sales and overheads[1]	2	**(694.4)**	(646.2)
Other operating income[1]	2	**12.6**	9.2
Other operating expenses[1]	2	**(1.3)**	(4.5)
Net impairment losses on financial assets		**(0.2)**	(0.1)
Operating profit prior to exceptional items	1,2	**119.2**	102.0
Exceptional items	4	**–**	–
Operating profit	2	**119.2**	102.0
Finance income	5	**0.8**	0.4
Finance charge	5	**(8.3)**	(7.1)
Profit before taxation		**111.7**	95.3
Taxation charge	6	**(24.9)**	(21.0)
Profit for the year		**86.8**	74.3
Attributable to:			
Equity holders of the Parent		**85.6**	73.7
Non-controlling interests		**1.2**	0.6
		86.8	74.3
Earnings per share	8		
		Pence	Pence
Basic		**45.1**	38.6
Diluted		**44.8**	38.5

1 Excludes exceptional items.

All activities have arisen from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Profit for the year		**86.8**	74.3
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit pension schemes	26	**(0.1)**	5.8
Tax on retirement benefit obligations that will not be reclassified	19	**–**	(0.2)
Total items that will not be reclassified to profit or loss		**(0.1)**	5.6
Items that may be reclassified subsequently to profit or loss:			
Exchange (losses)/gains on translation of overseas operations		**(29.7)**	57.2
Movements on hedges of net investments	18	**1.5**	(3.1)
Movements on cash flow hedges		**0.4**	(0.3)
Total items that may be reclassified subsequently to profit or loss		**(27.8)**	53.8
Other comprehensive (expense)/income for the year		**(27.9)**	59.4
Total comprehensive income for the year		**58.9**	133.7
Attributable to:			
Equity holders of the parent		**58.5**	133.3
Non-controlling interests		**0.4**	0.4
		58.9	133.7

Consolidated balance sheet

At 31 December 2023

	Note	2023 £m	2022 £m
Non-current assets			
Goodwill	9	**221.5**	227.8
Other intangible assets	10	**111.2**	116.9
Property, plant and equipment	11	**504.9**	516.3
Right-of-use assets	12	**58.5**	59.6
Deferred tax assets	19	**2.6**	1.5
Trade and other receivables	14	**1.3**	1.5
		900.0	923.6
Current assets			
Inventories	13	**29.5**	27.8
Current tax assets		**13.1**	24.4
Trade and other receivables	14	**148.4**	154.4
Cash and bank balances	15	**45.2**	37.2
Assets held for sale	16	**0.5**	0.3
		236.7	244.1
Total assets		**1,136.7**	1,167.7
Current liabilities			
Trade and other payables	20	**122.7**	124.9
Current tax liabilities		**46.0**	42.8
Borrowings	17	**32.6**	70.6
Lease liabilities	12	**11.8**	12.3
Derivative financial instruments	18	**–**	0.3
Provisions	21	**12.0**	10.2
		225.1	261.1
Net current assets/(liabilities)		**11.6**	(17.0)
Non-current liabilities			
Lease liabilities	12	**52.5**	53.7
Retirement benefit obligations	26	**11.1**	10.9
Deferred tax liabilities	19	**51.8**	51.0
Provisions	21	**3.0**	7.9
Other payables	20	**0.9**	1.1
		119.3	124.6
Total liabilities		**344.4**	385.7
Net assets		**792.3**	782.0
Equity			
Share capital	22	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(15.6)**	(5.2)
Other reserves		**139.9**	134.9
Translation reserves		**52.3**	81.2
Retained earnings		**404.0**	359.8
Equity attributable to equity holders of the parent		**790.8**	780.9
Non-controlling interests		**1.5**	1.1
Total equity		**792.3**	782.0

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 15 March 2024. They were signed on its behalf by:

S.C. Harris B. Fidler

Consolidated cash flow statement

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Net cash from operating activities	23	**191.6**	142.9
Investing activities			
Purchases of property, plant and equipment		**(74.1)**	(57.2)
Proceeds on disposal of property, plant and equipment, right-of-use and intangible assets		**10.4**	4.7
Purchases of other intangible assets		**(8.3)**	(9.8)
Interest received		**0.8**	0.4
Net cash used in investing activities		**(71.2)**	(61.9)
Financing activities			
Interest paid		**(7.2)**	(6.2)
Dividends paid	7	**(40.6)**	(38.5)
Principal elements of lease payments		**(13.1)**	(13.8)
Drawdown of bank loans		**25.7**	50.7
Repayments of bank loans		**(61.8)**	(75.0)
Own shares purchased		**(13.2)**	–
Net cash used in financing activities		**(110.2)**	(82.8)
Net increase/(decrease) in cash and cash equivalents		**10.2**	(1.8)
Cash and cash equivalents at beginning of year		**36.2**	37.9
Effect of foreign exchange rate changes		**(1.7)**	0.1
Cash and cash equivalents at end of year	23	**44.7**	36.2

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2022	33.1	177.1	(6.2)	137.5	23.8	319.4	684.7	0.7	685.4
Profit for the year	–	–	–	–	–	73.7	73.7	0.6	74.3
Exchange differences on translation of overseas operations	–	–	–	–	57.4	–	57.4	(0.2)	57.2
Movements on hedges of net investments	–	–	–	(3.1)	–	–	(3.1)	–	(3.1)
Movements on cash flow hedges	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	5.6	5.6	–	5.6
Total comprehensive income for the year	–	–	–	(3.4)	57.4	79.3	133.3	0.4	133.7
Acquired in the year/settlement of share awards	–	–	1.0	(0.9)	–	(0.1)	–	–	–
Share-based payments	–	–	–	1.7	–	–	1.7	–	1.7
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(38.5)	(38.5)	–	(38.5)
31 December 2022	**33.1**	**177.1**	**(5.2)**	**134.9**	**81.2**	**359.8**	**780.9**	**1.1**	**782.0**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**85.6**	**85.6**	**1.2**	**86.8**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**(28.9)**	**–**	**(28.9)**	**(0.8)**	**(29.7)**
Movements on hedges of net investments	**–**	**–**	**–**	**1.5**	**–**	**–**	**1.5**	**–**	**1.5**
Movements on cash flow hedges	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**	**–**	**0.4**
Actuarial losses on defined benefit pension schemes net of deferred tax	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Total comprehensive income for the year	**–**	**–**	**–**	**1.9**	**(28.9)**	**85.5**	**58.5**	**0.4**	**58.9**
Shares acquired in the year	**–**	**–**	**(13.2)**	**–**	**–**	**–**	**(13.2)**	**–**	**(13.2)**
Settlement of share awards	**–**	**–**	**2.8**	**(2.0)**	**–**	**(0.8)**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**5.1**	**–**	**–**	**5.1**	**–**	**5.1**
Deferred tax on share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**	**–**	**0.1**
Dividends	**–**	**–**	**–**	**–**	**–**	**(40.6)**	**(40.6)**	**–**	**(40.6)**
31 December 2023	**33.1**	**177.1**	**(15.6)**	**139.9**	**52.3**	**404.0**	**790.8**	**1.5**	**792.3**

Included in other reserves is a capital redemption reserve of £129.8m (2022: £129.8m) and a share-based payments reserve of £9.7m (2022: £6.7m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2023, 2,292,243 (2022: 639,125) ordinary shares of 17$^{3}/_{11}$p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 24). In the period ending 31 December 2023, 2,000,000 shares were purchased for the Bodycote International Employee Benefit Trust to satisfy future share-based payments under the Group's share incentive schemes, for an average price of £6.57 (excluding costs) at a cost of £13.1m plus purchase costs of £0.1m.

Certain subsidiaries in the UK have taken an exemption to be audited. Refer to page 148 for further information.

Group accounting policies

Year ended 31 December 2023

Basis of preparation

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

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

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

In preparing the consolidated financial statements, the Directors have considered the impact of climate change in the context of the disclosures included in the Sustainability section of the Strategic report. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the conclusion that climate change is not expected to have a significant impact on the Group's cash flows, including those considered in the going concern and viability assessments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Bodycote plc ('the Company') and entities controlled by the Company (its subsidiaries and together, 'the Group') made up to 31 December each year. A subsidiary is an entity controlled, directly or indirectly, by Bodycote plc. Control exists when the Group has power over the subsidiary, has exposure or rights to the variable returns from its involvement with a subsidiary and then holds ability to use its power to affect its returns.

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 subsidiary financial statements to bring the accounting policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of profits and losses less any distributions made.

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.

Going concern

In determining the basis of preparation for the consolidated financial statements, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Chief Financial Officer's report included in this Annual Report includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

The current and plausible impact of macroeconomic factors, including the war in Ukraine, energy and price inflation, and global supply chain impacts on the Group's activities, performance and revenue, in addition to other factors and risks, have been considered by the Directors in preparing its going concern assessment. The Group has modelled a base case, which reflects the Directors' current expectations of future trading in addition to potential severe but plausible impacts on revenue, profits and cash flows in a downside scenario.

Management's base case scenario is built upon the budgeting and forecasting processes for 2024 and extended up to June 2025. It includes the recent acquisition of Lake City and the £60m share buyback that were announced in January 2024. This model shows an improvement in performance in both revenue and profits compared to 2023. The Group's recent record of cash conversion was used to estimate the cash generation and level of net debt over that period. The severe but plausible downside scenario assumes a significant decline in revenue of around 20% below the base case modelled through to the end of June 2025, giving a 12% year on year decline in 2024. This downside takes account of short-term negative shock events which are intentionally more severe that those used in the impairment analysis. In mitigation to this severe sales decline, a 5% decline to maintenance capex and a 50% decline to expansionary capex compared to the base case has been assumed, together with an assumption that there is no growth in dividends from 2023 across this period.

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

Management also performed a reverse stress test. This indicated that 2024 revenue would need to decline by over 35% compared to 2023 levels and with no growth in 2025 before the Group's loan covenants were breached at the June 2025 test date. In this scenario, minimum liquidity was over £47m throughout the entire period. This scenario included the same mitigations as the downside scenario, with the expansionary capex reduction increased to 80% in H1 2025.

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

The Group has access to a £250.9m Revolving Credit Facility maturing in May 2027. The Group's committed facilities at 31 December 2023 totalled £260.6m while uncommitted facilities totalled £63.5m. At 31 December 2023, the Group's committed facilities had drawings of £32.3m (2022: £69.6m) and the Group's net cash (excluding lease liabilities) was £12.6m (2022: net debt (excluding lease liabilities) of £33.4m). The liquidity headroom was £273.5m at 31 December 2023 (2022: £223.0m), excluding uncommitted facilities.

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

Critical accounting judgements and significant accounting estimates

In the course of preparing the consolidated financial statements certain estimates, assumptions and judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the financial statements. Although the estimates and judgements are based on management's best information about current circumstances and future events and actions, actual results may differ and result in material variances.

Critical accounting judgements

- The Group operates in a number of countries and is subject to taxes in numerous jurisdictions. The recognition of a provision for taxes is a significant judgement that is based upon the interpretation of applicable tax legislation on a country-by-country basis and an assessment of the likely outcome of any open tax computations. There can also be estimation involved in determining the quantum of any provision. Refer to notes 6, 19 and 27.
- In line with previous years the Group continues to take the decision not to recognise an asset in relation to the surplus on the UK defined benefit pension scheme, regardless of value. See note 26.

Significant accounting estimates

- Accounting for retirement benefit schemes under IAS 19 requires an assessment of the future benefits payable in accordance with actuarial assumptions. The discount rate and the mortality rates applied in the calculation of scheme liabilities are a key source of estimation uncertainty for the Group. Details of the accounting policies applied in respect of retirement benefit schemes are set out in note 26.

Other areas of judgement and accounting estimates

- The Group has considered whether the valuation of goodwill and the related value-in-use calculation assumptions used for the annual impairment testing were significant estimates and has concluded that there is no reasonably possible material change expected in the carrying amount of these balances due to a change in these assumptions in the next financial year. This estimate is therefore not considered a key source of estimation uncertainty. Refer to note 9.
- The economy in Turkey is subject to high inflation and has qualified as a hyperinflationary economy as of 1 April 2022 for accounting periods ending on or after 30 June 2022. The Group has concluded that applying IAS 29 (Financial Reporting in Hyperinflationary Economies) is not required as the impact of adopting this standard is not material, but will continue to assess the position going forward.
- The Group recognises climate change as a principal risk. Growing awareness of climate change and customer sustainability targets will provide opportunities for growth as we provide services and solutions that increase efficiency and reduce energy use. The Group's view is that climate change does not create any further key source of estimation uncertainty at this time. Refer to our principal risks and uncertainties and sustainability reports and to note 9 for more information.

Revenue recognition

The Group predominantly has one revenue stream relating to thermal processing services with either identifiable customer contracts or specific terms and conditions that constitute a contract. Revenue is recognised net of discounts, VAT and other sales-related taxes. The Group's right to consideration equates to the value of the services provided, the transaction price of which is based upon pricing as agreed with the customer. In general, the services provided to the Group's customers consist of one performance obligation, being the delivery of a service which happens either at a point in time or over a short time frame. Revenue is recognised on completion of the service rendered as any spreading of revenue over a short time frame during which some services are performed would not have a material impact on revenue recognition. Where multiple performance obligations are determined to exist in one transaction, the allocation of transaction price and delivery of services are considered on a case-by-case basis. The determination of the transaction price is based upon pricing as agreed with the customer. In general, there are limited instances of judgements made in assessing revenue recognition under IFRS 15 given the relative simplicity of the contracts, and that revenue is recognised at a point in time.

In certain cases, the Group will use third parties as part of delivering customer contracts. When a third party is involved in providing goods or services, the Group determines if there is a principal or an agency relationship with that third party. Due to the nature of the contractual arrangements, it is initially assumed that the Group enters into a principal relationship with third-party contractors and thus recognises the related revenue on a gross basis with related costs included in cost of sales and overheads in the consolidated income statement. In some circumstances, third party work arranged for a customer of the Group is considered as agency activity. In such cases, the revenue and direct costs of sale are recorded on a net basis in revenue in the consolidated income statement.

Other operating income

Other operating income represents asset sales, profit on disposal of investment in associates, government support, scrap sales and other items of operating income not generated in the normal course of business.

Group accounting policies continued

Year ended 31 December 2023

Foreign currencies

Transactions in currencies other than the functional currency 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. Gains and losses arising on retranslation are included in net profit or loss for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see page 131); 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). These exchange differences 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.

Government assistance

Economic support provided to the Group as part of government and state initiatives to support local economies is recorded in the consolidated income statement on the date at which the conditions attached to the receipt of such assistance have been met, in the period it becomes receivable. General economic support is presented within other operating income in the consolidated income statement and where appropriate net against the applicable costs within cost of sales and overheads.

Operating profit

Operating profit is stated after charging restructuring costs, goodwill impairment, impairment of tangible and intangible assets, amortisation of acquired intangible assets, support from government assistance and any gains or losses on disposal of investments in associates, but before finance income and finance costs.

Dividends

Interim dividend distributions to Bodycote plc's ordinary shareholders are recognised when paid. Final dividends are accrued when approved by the ordinary shareholders at the Group's Annual General Meeting.

Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the period in which they are incurred as finance costs. 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. Interest costs on borrowings are expensed to the consolidated income statement as they fall due and accounted for as financing cash flows as they are settled.

Exceptional items

The Group considers exceptional items to be those which derive from events or transactions which are significant for separate disclosure by virtue of their collective 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, costs associated with significant restructuring and reorganisation costs, impairment charges, significant profits and losses on disposal of subsidiaries and other one-off items which meet this definition. Subsequent adjustments to items previously recognised as exceptional will normally also be reflected as exceptional items in future periods.

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 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 the consolidated income statement.

Goodwill is allocated to cash generating units and is not amortised but tested annually for impairment, 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. Any impairment loss recognised for goodwill cannot be reversed in a subsequent period.

On disposal of an associate or subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

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

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

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

Amortisation is recognised within administration expenses, which is included in cost of sales and overheads.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets and are amortised from the month in which the asset is available for its intended use. Directly attributable costs that are capitalised as part of the software asset include third-party costs, employee costs and an appropriate portion of relevant overheads.

Annual licence agreements to use Cloud software are expensed and treated as a service agreement. Perpetual licences to use Cloud software are capitalised if the Group has both a contractual right to the software and the ability to run the software independently of the host vendor. Customisation and configuration costs related to the implementation of a Cloud-based solution is expensed unless it creates an asset that is separate and identifiable from the software.

Property, plant and equipment

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

Depreciation is charged to the income statement either to cost of sales or administrative expenses, depending on the use of the asset, on a straight-line basis at rates which write down the value of assets to their residual values over their estimated useful lives. Land is not depreciated.

The principal rates are as follows:

Freehold buildings	2%
Leasehold improvements	over the projected life of the lease
Fixtures and fittings	10%-20%
Plant and machinery	5%-20%
Motor vehicles	20%-33%

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 other operating income in the consolidated income statement.

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 and they have been transferred to the relevant asset class.

Business combinations

Acquisitions of subsidiaries and businesses are generally accounted for under IFRS 3, where appropriate. 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 the consolidated income statement 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 any contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS standards.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 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 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 Payments.

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 or an asset is not in use and therefore requires an annual test, 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 inflows that are largely 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 dispose and value-in-use. In assessing value-in-use, the estimated future nominal cash flows are discounted to their present value using a nominal 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 in the consolidated income statement.

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 in the consolidated income statement immediately.

Group accounting policies continued

Year ended 31 December 2023

Retirement benefit schemes

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

The cost of providing pensions under defined benefit schemes is calculated in accordance with a qualified actuarial evaluation and spread over the period during which the benefit is expected to be derived from the employees' services. The Group's net obligation or surplus in respect of defined benefit pension schemes is calculated separately for each scheme by a qualified actuary using the projected unit method by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods less the fair value of the scheme's assets. Past service costs resulting from scheme amendments or curtailments and gains or losses on settlements are charged to the consolidated income statement. If the calculation results in a surplus, the recognised asset is limited, under the provisions of IFRIC 14, to the present value of benefits available in the form of future refunds from the plan or reductions to future contributions.

The average discount rate for the schemes' liabilities is based on investment grade rated corporate bonds or similar government bonds of suitable duration and currency. Scheme assets are measured using market values at the end of the reporting period. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income in the year they arise. Any scheme surplus (to the extent it is considered recoverable under the provisions of IFRIC 14) or deficit is recognised in full in the consolidated balance sheet.

On plan settlement, a gain or loss on settlement is calculated as the difference between the present value of the defined benefit obligation being settled as determined on the date of the settlement and the settlement price including any plan assets transferred, and any payments made directly by the Group in connection with the settlement. This gain or loss is recognised in the income statement or other comprehensive income at the time of settlement, depending on the nature of how the gain or loss arises.

Right-of-use assets and lease liabilities

To the extent that a right-of-control exists over an asset subject to a lease, with a lease term exceeding one year, a right-of-use asset, representing the Group's right to use the underlying leased asset, and a lease liability, representing the Group's obligation to make lease payments, are recognised in the Group's balance sheet at the commencement of the lease.

The right-of-use asset is measured at cost and includes the amount of initial measurement of the lease liability and any direct costs incurred, including advance lease payments, and an estimate of the dismantling, removal and restoration costs required by the terms and conditions of the lease. Contracts may contain both lease and non lease components such as administrative charges and taxes. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the consolidated income statement to depreciate the right-of-use asset from the commencement date until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term shall include the period of any extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The lease liability is measured at the present value of the future lease payments, including fixed payments less any lease incentives receivable, amounts expected to be payable by the Group under residual value guarantees and the exercise price of purchased options where it is reasonably certain that the option will be exercised, discounted using the interest rate implicit in the lease, if easily determinable. If the rate cannot be readily determined, the lessee's incremental borrowing rate is used. Finance charges are recognised in the consolidated income statement over the period of the lease.

Lease arrangements that are short-term in nature in relation to low value assets are charged directly to the consolidated income statement when incurred. Short-term leases are leases with a lease term of 12 months or less and low value assets are defined based on quantitative criteria as outlined in IFRS 16.

Where subleased the right-of-use asset is de-recognised and a receivable booked to the balance sheet representing the rental income receivable for the full sub-lease rental period. Rental income is credited against the lease liability in the consolidated balance sheet.

Assets held for sale

Assets are classified and presented as held for sale at the lower of carrying amount and fair value less cost to sell 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. Assets categorised as held for sale are not depreciated.

Inventories

Inventories are stated at the lower of cost and net realisable value and are accounted for on a first in, first out basis or, in some cases, a weighted-average basis, if deemed more appropriate for the business. For finished goods and work-in-progress, 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. Financial liabilities are classified according to the substance of the contractual arrangements entered into. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. With the exception of the Group's borrowings, and certain tax provisions, financial liabilities are not generally interest-bearing.

Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at original invoice amount (which is considered fair value) and are subsequently held at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate where applicable, except for trade receivables which do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for expected credit losses and estimated irrecoverable amounts.

For trade receivables initially recognised at fair value less allowance for impairments, a simplified lifetime Expected Credit Loss (ECL) model is used to assess trade receivables for impairment. ECL is the present value of all cash shortfalls over the expected life of a trade receivable. Expected credit losses are based on historical loss experience on trade receivables, adjusted to reflect information about current economic conditions and reasonable and supportable forecasts of future economic conditions. At the date of initial recognition, the credit losses expected to arise over the lifetime of a trade receivable are recognised as an impairment in the consolidated income statement.

Cash and bank balances

Cash and bank balances 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. Overdrafts are presented as gross or offset against cash and bank balances depending on whether the Group has the right and intention to settle the balances as net.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at fair value, net of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual's basis to the consolidated 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.

Derivative financial instruments

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 derivative financial instruments. The Group uses derivative financial instruments, in particular foreign currency swaps, forward exchange contracts and cross-currency interest rate swaps 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.

Derivative financial instruments are initially 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 IFRS 9 Financial Instruments are recognised immediately in the consolidated income statement. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Net investment hedge

The Group uses foreign currency denominated borrowings to hedge its exposure to changes in the underlying value of net assets (translation exposure) in certain of its 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 nominal value of the hedged items.

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 other reserves. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated income statement and is included in other operating income and expenses.

Cash flow hedge

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.

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 other reserves. Any gain or loss relating to any ineffective portion is recognised immediately in the consolidated income statement and is included in other operating income and expenses. If the hedged item results in the recognition of a non financial asset, the accumulated gains or losses are included within the initial cost of the asset at the time that the asset is recognised.

Hedge accounting is discontinued when the instrument expires or is sold, exercised or if it no longer meets the criteria for hedge accounting. If a forecasted transaction subject to hedge accounting is no longer expected to occur, the accumulated gain or loss in the hedging and translation reserve is recognised immediately in the consolidated income statement.

Trade and other payables

Trade and other payables are recognised at the amounts expected to be paid to counterparties and subsequently held at amortised cost.

Taxation

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

The tax currently payable is based on taxable profit for the year or tax assessment adjustments made to prior years. Taxable profit differs from net profit as reported in the consolidated 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 asset and 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 the initial recognition of 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.

Group accounting policies continued

Year ended 31 December 2023

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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 consolidated 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.

Current and deferred tax assets and liabilities are offset 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.

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. If the obligation is expected to be settled within 12 months of the reporting date the provisions are included within current liabilities and if expected to be settled after 12 months included in non-current liabilities.

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 difference between the carrying amount and the present value of those cash flows is material to the financial statements, the carrying amount is the present value of those cash flows.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled share-based payments reserve.

Adoption of new and revised standards and interpretations applied in the current year

Accounting standard IFRS 17 - Insurance contracts issued in May 2017 is applicable for annual reporting periods commencing on or after 1 January 2023. This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. There is no impact on the Group from adopting this standard and the Group has not therefore changed its accounting policies or made retrospective adjustments as a result of adopting this standard.

A number of amended standards became applicable in 2023. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments and they did not have a material impact. These amendments were:

Effective for annual reporting periods commencing on or after 1 January 2023:

- Amendments to IAS 8 (Definition of Accounting Estimates).
- Amendments to IAS 12 (Income taxes) - Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

Issued and effective from 23 May 2023:

- Amendments to IAS 12 (Income taxes) - International Tax Reform, Pillar Two Model Rules.

New standards and interpretations not yet applied

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. They are not expected to have a material impact on the Group:

- Amendment to IFRS 16 Leases on sale and leaseback, effective from 1 January 2024.
- The International Sustainability Standards Board (ISSB) has issued amendments to the Sustainability Accounting Standards Board (SASB) standards effective for annual reporting periods beginning on or after 1 January 2025.
- Amendments to IAS 1 classification of liabilities as current or non-current, effective 1 January 2024.
- Amendments to IAS 7 and IFRS 7 relating to supplier finance arrangements effective 1 January 2024.

General information

Bodycote plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 55.

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

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pounds sterling, which is the functional and presentation currency of the Company. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy on pages 105 and 106.

Notes to the consolidated financial statements

Year ended 31 December 2023

1. Business and geographical segments

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

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

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

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

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

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

Group	ADE 2023 £m	AGI 2023 £m	Central costs and eliminations 2023 £m	Consolidated 2023 £m
Revenue				
Total revenue	355.5	447.0	–	802.5
Result				
Headline operating profit prior to share-based payments and unallocated central costs	71.2	80.8	–	152.0
Share-based payments (including social charges)[1]	(1.7)	(1.5)	(2.7)	(5.9)
Unallocated central costs	–	–	(18.5)	(18.5)
Headline operating profit/(loss)	69.5	79.3	(21.2)	127.6
Amortisation of acquired intangible assets	(6.4)	(1.7)	–	(8.1)
Acquisition costs	–	–	(0.3)	(0.3)
Operating profit/(loss) prior to exceptional items	63.1	77.6	(21.5)	119.2
Exceptional items	–	–	–	–
Segment result	63.1	77.6	(21.5)	119.2
Finance income				0.8
Finance costs				(8.3)
Profit before taxation				111.7
Taxation				(24.9)
Profit for the year				86.8

1 Includes £0.8m social security charges (2022: £0.1m credit).

Inter-segment revenues are not material in either year.

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

Notes to the consolidated financial statements continued

Year ended 31 December 2023

1. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2023 £m	North America 2023 £m	Emerging markets 2023 £m	Total ADE 2023 £m
Revenue				
Total revenue	162.8	185.1	7.6	355.5
Result				
Headline operating profit prior to share-based payments	36.2	35.2	(0.2)	71.2
Share-based payments (including social charges)	(0.8)	(0.9)	–	(1.7)
Headline operating profit/(loss)	35.4	34.3	(0.2)	69.5
Amortisation of acquired intangible assets	(0.4)	(6.0)	–	(6.4)
Segment result	35.0	28.3	(0.2)	63.1

Automotive & General Industrial	Western Europe 2023 £m	North America 2023 £m	Emerging markets 2023 £m	Total AGI 2023 £m
Revenue				
Total revenue	254.6	102.4	90.0	447.0
Result				
Headline operating profit prior to share-based payments	54.7	10.1	16.0	80.8
Share-based payments (including social charges)	(1.0)	(0.1)	(0.4)	(1.5)
Headline operating profit	53.7	10.0	15.6	79.3
Amortisation of acquired intangible assets	(0.4)	(0.9)	(0.4)	(1.7)
Segment result	53.3	9.1	15.2	77.6

1. Business and geographical segments continued

Group	ADE 2022 £m	AGI 2022 £m	Central costs and eliminations 2022 £m	Consolidated 2022 £m
Revenue				
Total revenue	312.7	430.9	–	743.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	52.1	81.1	–	133.2
Share-based payments (including social charges)	(1.3)	(0.3)	–	(1.6)
Unallocated central costs	–	–	(19.4)	(19.4)
Headline operating profit/(loss)	50.8	80.8	(19.4)	112.2
Amortisation of acquired intangible assets	(6.9)	(2.4)	–	(9.3)
Acquisition costs	–	–	(0.9)	(0.9)
Operating profit/(loss) prior to exceptional items	43.9	78.4	(20.3)	102.0
Exceptional items	0.1	(0.2)	0.1	–
Segment result	44.0	78.2	(20.2)	102.0
Finance income				0.4
Finance costs				(7.1)
Profit before taxation				95.3
Taxation				(21.0)
Profit for the year				74.3

Aerospace, Defence & Energy	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total ADE 2022 £m
Revenue				
Total revenue	137.1	168.6	7.0	312.7
Result				
Headline operating profit prior to share-based payments	24.5	27.4	0.2	52.1
Share-based payments (including social charges)	(0.4)	(0.9)	–	(1.3)
Headline operating profit	24.1	26.5	0.2	50.8
Amortisation of acquired intangible assets	(0.4)	(6.5)	–	(6.9)
Operating profit prior to exceptional items	23.7	20.0	0.2	43.9
Exceptional items	0.7	(0.6)	–	0.1
Segment result	24.4	19.4	0.2	44.0

Automotive & General Industrial	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total AGI 2022 £m
Revenue				
Total revenue	241.6	103.0	86.3	430.9
Result				
Headline operating profit prior to share-based payments	51.6	12.1	17.4	81.1
Share-based payments (including social charges)	(0.6)	0.2	0.1	(0.3)
Headline operating profit	51.0	12.3	17.5	80.8
Amortisation of acquired intangible assets	(0.5)	(1.5)	(0.4)	(2.4)
Operating profit prior to exceptional items	50.5	10.8	17.1	78.4
Exceptional items	0.2	(0.3)	(0.1)	(0.2)
Segment result	50.7	10.5	17.0	78.2

Notes to the consolidated financial statements continued

Year ended 31 December 2023

1. Business and geographical segments continued

Other information

Group	ADE 2023 £m	AGI 2023 £m	Central costs and eliminations 2023 £m	Consolidated 2023 £m
Gross capital additions	35.9	48.5	10.1	94.5
Depreciation and amortisation	32.4	46.6	3.1	82.1
Balance sheet				
Segment assets	530.0	551.9	54.8	1,136.7
Segment liabilities	(95.9)	(145.7)	(102.8)	(344.4)
Segment net assets/(liabilities)	434.1	406.2	(48.0)	792.3

Aerospace, Defence & Energy	Western Europe 2023 £m	North America 2023 £m	Emerging markets 2023 £m	Total ADE 2023 £m
Gross capital additions	12.0	23.7	0.2	35.9
Depreciation and amortisation	12.7	19.1	0.6	32.4
Balance sheet				
Segment assets	178.6	346.8	4.6	530.0
Segment liabilities	(39.8)	(55.3)	(0.8)	(95.9)
Segment net assets	138.8	291.5	3.8	434.1

Automotive & General Industrial	Western Europe 2023 £m	North America 2023 £m	Emerging markets 2023 £m	Total AGI 2023 £m
Gross capital additions	21.0	10.2	17.3	48.5
Depreciation and amortisation	22.2	12.0	12.4	46.6
Balance sheet				
Segment assets	241.9	161.2	148.8	551.9
Segment liabilities	(93.9)	(20.6)	(31.2)	(145.7)
Segment net assets	148.0	140.6	117.6	406.2

Group	ADE 2022 £m	AGI 2022 £m	Central costs and eliminations 2022 £m	Consolidated 2022 £m
Gross capital additions	30.8	38.2	10.6	79.6
Depreciation and amortisation	34.1	47.0	3.2	84.3
Balance sheet				
Segment assets	526.9	569.8	71.0	1,167.7
Segment liabilities	(96.0)	(134.9)	(154.8)	(385.7)
Segment net assets/(liabilities)	430.9	434.9	(83.8)	782.0

1. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total ADE 2022 £m
Gross capital additions	10.2	20.4	0.2	30.8
Depreciation and amortisation	12.5	20.9	0.7	34.1
Balance sheet				
Segment assets	183.1	337.7	6.1	526.9
Segment liabilities	(51.6)	(43.5)	(0.9)	(96.0)
Segment net assets	131.5	294.2	5.2	430.9

Automotive & General Industrial	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total AGI 2022 £m
Gross capital additions	20.1	10.0	8.1	38.2
Depreciation and amortisation	22.5	13.2	11.3	47.0
Balance sheet				
Segment assets	248.4	177.4	144.0	569.8
Segment liabilities	(79.4)	(21.2)	(34.3)	(134.9)
Segment net assets	169.0	156.2	109.7	434.9

Geographical information

The Group's revenue from external customers and information about its 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	
	2023 £m	2022 £m	**2023 £m**	2022 £m
USA	**271.7**	258.2	**426.1**	450.6
France	**116.9**	90.8	**63.3**	64.4
Germany	**82.3**	79.0	**69.2**	71.3
UK	**66.3**	55.6	**96.7**	88.1
Sweden	**50.9**	48.1	**34.7**	35.2
Netherlands	**34.9**	32.8	**22.7**	23.1
Others	**179.5**	179.1	**183.4**	187.9
	802.5	743.6	**896.1**	920.6

2. Operating profit

	2023 £m	2022 £m
Revenue	**802.5**	743.6
Cost of sales	**(500.6)**	(473.9)
Gross profit	**301.9**	269.7
Distribution costs	**(21.8)**	(21.1)
Administration expenses	**(172.0)**	(151.2)
Other operating income	**12.6**	9.2
Other operating expenses	**(1.3)**	(4.5)
Net impairment losses on financial assets	**(0.2)**	(0.1)
Operating profit prior to exceptional items	**119.2**	102.0
Exceptional items (see note 4)	**–**	–
Operating profit	**119.2**	102.0

Notes to the consolidated financial statements continued

Year ended 31 December 2023

2. Operating profit continued

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

	2023 £m	2022 £m
Net foreign exchange loss	**0.2**	0.1
Inventory expensed	**76.8**	69.2
Depreciation of property, plant and equipment	**59.4**	60.2
Depreciation of right-of-use assets	**12.9**	13.0
Amortisation of other intangible assets	**9.8**	11.1
Gain on disposal of property, plant and equipment recognised in operating profit	**(3.4)**	(1.7)
Gain on disposal of right-of-use assets	**(0.2)**	(0.1)
Repairs and maintenance	**27.2**	23.5
Employee costs (see note 3)	**307.5**	276.5
Pension scheme administration expenses	**0.5**	0.6
Utility costs	**98.3**	95.6
Government assistance support received[1]	**(6.4)**	(2.6)
Acquisition costs	**0.3**	0.9
Impairment loss on trade receivables	**0.2**	0.1
Impairment of property, plant and equipment and other assets - recognised in operating profit	**0.9**	4.8

1 Government assistance consists of support towards energy costs of £6.1m (2022: £1.7m), R&D support of £0.2m (2022: £0.7m) and £0.1m (2022: £0.2m) in respect of other support programmes.

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

	2023 £m	2022 £m
Fees payable to the auditor for the audit of the annual accounts	**1.2**	0.9
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	**1.2**	1.2
Total audit fees	**2.4**	2.1
Audit related assurance services[1]	**0.1**	0.1
Total fees payable to the auditor	**2.5**	2.2

1 This includes £0.1m (2022: £0.1m) for the interim review of the half year report. Non-audit fees in 2023 also include a nominal amount for a subscription to a generic accounting and reporting website.

The audit fees disclosed for 2023 include £0.1m of fees in connection with the 2022 audit. The audit fees disclosed for 2022 include £0.1m of fees in connection with the 2021 audit.

3. Employees

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

	2023 Number	2022 Number
ADE:		
Western Europe	**765**	740
North America	**910**	868
Emerging markets	**65**	73
AGI:		
Western Europe	**1,469**	1,490
North America	**590**	626
Emerging markets	**808**	815
Shared services	**292**	278
Head office	**45**	43
	4,944	4,933

	2023 £m	2022 £m
Their aggregate remuneration comprised:		
Wages and salaries	**262.8**	235.6
Social security costs	**36.1**	32.6
Pension costs	**8.6**	8.3
	307.5	276.5

Included in wages and salaries are share-based payments (excluding social charges) of £5.1m (2022: £1.7m).

Included in pension costs are £8.3m (2022: £7.8m) relating to defined contribution schemes and a £0.3m (2022: £0.5m) charge relating to defined benefit schemes. Pension administrative costs not included above were £0.5m (2022: £0.6m) and interest costs not included above were £0.4m (2022: £0.1m) – see notes 2 and 26.

Disclosure of individual Directors' remuneration, share interests, share awards, long-term incentive schemes, pension contributions and pension entitlements are shown in the tables in the Directors' remuneration report on pages 79 to 91. See also note 24 for information on share-based payments and note 26 for information on retirement benefit schemes.

4. Exceptional items

	2023 £m	2022 £m
Severance and redundancy provision release	**–**	(0.8)
Net impairment reversal	**–**	(0.1)
Site closure costs	**–**	1.0
Losses on sales of property, plant and equipment recognised in exceptional items	**–**	0.1
Environmental provisions credit	**–**	(0.2)
Total exceptional items[1]	**–**	–

1 Non-exceptional costs relating to severance and redundancy, impairment charges and reversals, site closure costs and environmental provisions are booked to other operating expenses. Gains and losses on sales of property, plant and equipment are booked to other operating income.

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

At 31 December 2023 £1.4m (2022: £3.0m) was held as exceptional provisions.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

5. Net finance charge

	2023 £m	2022 £m
Interest on bank loans and overdrafts	**2.7**	2.3
Interest on lease liabilities	**2.3**	1.8
Total interest expense	**5.0**	4.1
Net interest on the defined benefit pension liabilities	**0.4**	0.1
Other finance charges	**2.9**	2.9
Total finance charge	**8.3**	7.1
Interest received on bank deposits	**0.5**	0.1
Other interest receivable	**0.3**	0.3
Total finance income	**0.8**	0.4
Net finance charge	**7.5**	6.7

6. Taxation charge

	2023 £m	2022 £m
Current taxation – charge for the year	**26.0**	21.3
Current taxation – adjustments in respect of previous years	**(2.7)**	(0.6)
Deferred tax (see note 19)	**1.6**	0.3
Total taxation charge	**24.9**	21.0

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements.

The appropriate tax rate for this comparison in 2023 is 25.4% (2022: 24.8%). The UK tax rate was increased from 19.0% to 25.0% from 1 April 2023 as per the Finance Act 2021 and consequently, the deferred tax balances on the consolidated balance sheet relating to the UK have been measured using these revised rates.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, the Pillar II GloBE Rules, applicable to large multinational Groups. On 20 June 2023, the United Kingdom substantially enacted the Pillar II GloBE rules. The Group has performed an overall assessment of the impact and determined that the adoption of the Pillar II GloBE Rules by jurisdictions where Bodycote operates is not expected to have a material impact on the Group's future tax charge. The Group has applied the exception provided for by the Pillar II GloBE Rules (Amendments to IAS 12) and has not recognised, or therefore disclosed, information about deferred tax assets and liabilities related to these Pillar II GloBE rules.

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

	2023 £m	2022 £m
Profit before taxation	**111.7**	95.3
Tax at the weighted average country tax rate of 25.4% (2022: 24.8%)	**28.4**	23.6
Tax effect of expenses not deductible in determining taxable profit[1]	**1.1**	1.7
Impact of recognition or derecognition of deferred tax balances	**0.5**	(2.0)
Tax effect of other adjustments in respect of previous years:		
Current tax[2]	**(2.7)**	(0.6)
Deferred tax[2]	**0.1**	(3.4)
Effect of financing activities between jurisdictions[3]	**0.3**	(0.6)
Impact of trade and minimum corporate taxes	**0.3**	0.5
Effect of changes in statutory tax rates on deferred tax assets and liabilities	**0.3**	0.9
Other tax risk provision movements[4]	**(3.4)**	0.9
Tax expense for the year	**24.9**	21.0

Tax on retirement benefit obligations taken directly to equity was a credit of £0.1m (2022: charge of £0.5m).

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

2 2023 and 2022 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions.

3 The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest.

4 Includes provisions for local tax risks and cross-border transactions. 2023 includes a credit of £4.3m (2022: £nil) for the release of a provision for a tax risk which is no longer within an audit period.

6. Taxation charge continued

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Included within current tax liabilities on the consolidated balance sheet as at 31 December 2023 of £46.0m (2022: £42.8m) are tax provisions totalling £26.4m (2022: £28.1m), of which £4.2m (2022: £5.3m) are expected to crystallise within 12 months, although if facts and circumstances change this amount could materially differ. The provisions are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. The material provisions relate to the financing of the Group's operations where management's judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquiries, and determining whether any possible liability is probable. The Group's individual tax provisions vary in quantum from £3.4m to £8.8m.

7. Dividends

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2021 of 13.8p per share	**–**	26.3
Interim dividend for the year ended 31 December 2022 of 6.4p per share	**–**	12.2
Final dividend for the year ended 31 December 2022 of 14.9p per share	**28.5**	–
Interim dividend for the year ended 31 December 2023 of 6.7p per share	**12.7**	–
	41.2	38.5
Proposed final dividend for the year ended 31 December 2023 of 16.0p per share	**30.3**	–

A final dividend for 2022 of 14.9p was approved at the Annual General Meeting (AGM) on 25 May 2023 to shareholders on the register of Bodycote plc on 21 April 2023 and was paid on 2 June 2023.

The Board approved the payment of an interim dividend for 2023 of 6.7p on 29 July 2023 to those shareholders on the register of Bodycote plc on 6 October 2023 and has proposed a final dividend of 16.0p per share to be paid on 6 June 2024 to shareholders on the register at close of business at 26 April 2024 subject to approval by shareholders at the AGM. The 2023 interim dividend was paid on 10 November 2023.

As the proposed final dividend is subject to shareholder approval in 2024, it is not included as a liability in these financial statements. The dividends are waived on shares held by the Bodycote International Employee Benefit Trust.

Any dividend unclaimed after a period of 6 years from the date for payment of such dividend is forfeited and reverted back to the Group. In the year 2023 £0.6m (2022: £nil) was received from dividends forfeited.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

8. Earnings per share

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

	2023 £m	2022 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**85.6**	73.7

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**189,877,099**	190,779,615
Effect of dilutive potential ordinary shares:		
Shares subject to performance conditions[1]	**661,721**	384,848
Shares subject to vesting conditions	**344,050**	191,502
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**190,882,870**	191,355,965

	Pence	Pence
Earnings per share:		
Basic	**45.1**	38.6
Diluted[1]	**44.8**	38.5

	2023 £m	2022 £m
Headline earnings		
Net profit attributable to equity holders of the parent	**85.6**	73.7
Add back:		
Amortisation of acquired intangible assets (net of tax)	**6.1**	7.0
Acquisition costs (net of tax)	**0.2**	0.7
Headline earnings	**91.9**	81.4

	Pence	Pence
Headline earnings per share:		
Basic	**48.4**	42.7
Diluted[1]	**48.1**	42.5

1 As at 31 December 2023, in accordance with IAS 33, the related performance conditions for open plans have been met resulting in 0.3p dilution of earnings per share (2022: 0.1p dilution) and 0.3p dilution of headline earnings per share (2022: 0.2p).

9. Goodwill

	2023 £m	2022 £m
Cost		
At 1 January	**288.9**	274.5
Exchange differences	**(6.6)**	14.1
Recognised on acquisition of businesses	**–**	0.3
At 31 December	**282.3**	288.9
Accumulated impairment		
At 1 January	**61.1**	60.6
Exchange differences	**(0.3)**	0.5
At 31 December	**60.8**	61.1
Carrying amount	**221.5**	227.8

9. Goodwill continued

Goodwill acquired through business combinations is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the combination. The recoverable amounts of these CGUs are the higher of fair value less costs to dispose and value-in-use. Goodwill is allocated across the Group's segments as follows:

	2023 £m	2022 £m
ADE:		
Western Europe	**27.2**	27.2
North America	**97.2**	100.9
AGI:		
Western Europe	**27.8**	28.2
North America	**57.1**	59.4
Emerging Markets	**12.2**	12.1
	221.5	227.8

Goodwill is tested for impairment at least annually, or more frequently if there are indications that the carrying value may not be recoverable.

The recoverable amounts of the CGUs are determined from value-in-use calculations. In assessing value-in-use, estimated post-tax future cash flows for each CGU are discounted to their present value using a post-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the CGUs, including country risk premium.

The cash flows for each CGU have been derived from the 2024 budget, and five-year financial plan up to and including 2028, both of which have been approved by the Board. They have then been extrapolated for a further five years (until the end of 2033) by applying a medium-term growth rate to EBITDA, before applying a long-term growth rate into perpetuity from 2034 onwards.

The key assumptions applied in determining the value-in-use of each CGU were as follows:

- **Revenue:** Revenue for 2024–2028 was projected based on management's growth expectations of the underlying market sectors served by each CGU. These were benchmarked against external projections for each market and also included approved growth initiatives. Expectations on pricing were based on recent experience in the market and forecast inflation expectations.
- **Operational gearing:** Operational gearing represents the correlation between movements in revenue and operating profits. The gearing levels assumed reflect management's expectations of future business performance, and are informed by past performance.
- **Capital expenditure:** The future cash flows include estimates of capital expenditure required to maintain the existing asset base of each CGU, and are based on historical experience. Expansionary capital expenditure, and the associated cash flows, are only included to the extent that the capital expenditure has been approved at the balance sheet date and work on the project is already underway.
- **Medium-term growth rates:** The EBITDA for each CGU has been extrapolated between 2028 (the final year of the five-year financial plan) and 2033 reflecting a market-based nominal GDP growth rate of 4%. A medium-term growth rate has been used as management believe that the current inflationary environment will lead to higher nominal growth in the medium term, before reverting to a more normalised long-term growth rate.
- **Long-term growth rate:** A long-term growth rate has been applied into perpetuity based on the long-term average GDP growth projections of the geographies relevant to each CGU, and are in the range of 2.0% to 2.2% (2022: 2.0% to 2.3%).
- **Discount rate:** The discount rates have been derived from a weighted average cost of capital, adjusted for the geographies in which each CGU operates. The post-tax discount rates range between 9.6% and 10.4% (2022: 8.6% and 9.9%). The pre-tax discount rates are the rates which, when applied to the pre-tax cash flows, result in the same NPV as calculated by the post-tax discount rate applied to the post-tax cash flows. The pre-tax discount rates range from 11.9% to 13.0% (2022: 10.5% to 12.0%).

The majority of goodwill is allocated to two of the CGUs, being North America ADE (NA ADE) and North America AGI (NA AGI). The long-term growth rates and the rates used to discount the projected cash flows for these CGUs are shown below:

	Goodwill carrying value 2023 £m	Long-term growth rate 2023 %	Post-tax discount rate 2023 %	Pre-tax discount rate 2023 %
Cash generating units				
North America ADE	**97.2**	**2.2**	**10.4**	**13.0**
North America AGI	**57.1**	**2.2**	**10.4**	**12.9**

Notes to the consolidated financial statements continued

Year ended 31 December 2023

9. Goodwill continued

Expected future cash flows are inherently uncertain and could change materially over time. They are affected by several factors, including market and production estimates, together with economic factors such as prices, discount rates, currency exchange rates, estimates of operational costs, and future maintenance capital expenditure. The Group has conducted sensitivity analysis on the key assumptions applied to the value-in-use calculations for each CGU.

The key assumptions that were sensitised in a downside scenario included a reduction in sales growth, operating margin and the medium and long-term growth rates. The combined impact of these adjustments reduced the aggregated net present value (NPV) of the CGUs by 29%. With the exception of the NA AGI CGU, no reasonably possible downside reductions to any of these assumptions resulted in an impairment.

For the NA AGI CGU, management modelled a downside scenario which reflected no volume growth over the next five years, followed by an assumed 25% reduction in the medium and long-term growth rate versus the base case. In addition, it was assumed in this scenario that headline operating margins were well below the base case, being restricted to 11.5%, reflecting the margin achieved in 2022 and substantially below their pre-COVID peak despite the cost reduction actions taken since then. This downside scenario, which management believes to be unlikely, but could be possible if market conditions and underlying performance do not recover, could result in an immaterial impairment. This scenario does not include the benefit of any cost reduction and other initiatives that would be undertaken in the unlikely event that no growth in volumes or recovery of margins in this CGU was achieved. This downward trend would have to continue into the longer term to result in an impairment.

In determining the sensitivities to apply, consideration was given to the impact that climate change risks and opportunities may have on the Group's businesses. Specific scenarios relating to the potential risks of climate change, as set out in our TCFD section of the Annual Report, were considered to determine if these should be included in the modelling performed and it was determined that none of these scenarios would have a material impact on the outcome. Furthermore the impact of the above sensitivities was deemed sufficiently severe to cover a range of potential risks, some of which could relate to these potential risks.

Based on current available information, the Directors do not consider that there are any reasonably possible scenarios that could arise that would result in a material impairment charge being recognised in the next 12 months, notwithstanding the potential risk around the NA AGI CGU as set out above. Accordingly, the Directors have concluded that no impairment charge is required as at 31 December 2023.

10. Other intangible assets

	Software £m	Customer relationships £m	Non-compete agreements £m	Total £m
Cost				
At 1 January 2022	46.6	138.2	3.8	188.6
Exchange differences	0.5	16.3	–	16.8
Additions	9.8	–	–	9.8
Eliminated on disposals	(3.3)	–	–	(3.3)
At 1 January 2023	**53.6**	**154.5**	**3.8**	**211.9**
Exchange differences	**(0.3)**	**(7.6)**	**–**	**(7.9)**
Additions	**8.3**	**–**	**–**	**8.3**
Eliminated on disposals	**(0.7)**	**–**	**–**	**(0.7)**
At 31 December 2023	**60.9**	**146.9**	**3.8**	**211.6**
Amortisation				
At 1 January 2022	25.4	52.0	3.1	80.5
Exchange differences	0.4	6.3	–	6.7
Charge for the year	1.7	9.3	0.1	11.1
Eliminated on disposals	(3.3)	–	–	(3.3)
At 1 January 2023	**24.2**	**67.6**	**3.2**	**95.0**
Exchange differences	**(0.1)**	**(3.6)**	**–**	**(3.7)**
Charge for the year	**1.7**	**7.8**	**0.3**	**9.8**
Eliminated on disposals	**(0.7)**	**–**	**–**	**(0.7)**
At 31 December 2023	**25.1**	**71.8**	**3.5**	**100.4**
Carrying amount				
At 31 December 2023	**35.8**	**75.1**	**0.3**	**111.2**
At 31 December 2022	29.4	86.9	0.6	116.9

Included in intangible software assets are carrying values related to the Group's existing ERP software module totalling £2.5m (2022: £4.0m) which are currently being amortised over the remaining useful life.

The Group is currently developing and implementing a new ERP software solution, assets of which will be held centrally. During the year, the Group has capitalised £8.1m (2022: £9.6m), of which £5.1m (2022: £4.7m) relates to internal capital costs for the development of this ERP solution. Included in intangible assets are £32.2m (2022: £24.0m) that is not yet available for use and is therefore not yet being amortised.

Contractual commitments related to the ERP software development were £1.1m at 31 December 2023 (2022: £1.9m). These costs will be capitalised as incurred.

11. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold improvements £m	Short leasehold improvements £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 January 2022	248.4	10.0	19.8	989.4	26.8	55.0	1,349.4
Additions[1]	0.1	0.1	0.1	4.9	0.5	52.2	57.9
Exchange differences	17.5	0.2	1.9	71.2	1.9	5.0	97.7
Recategorisation	10.1	(0.5)	0.8	39.5	2.0	(51.9)	–
Eliminated on disposals	(3.6)	(0.4)	(1.2)	(17.2)	(1.2)	(1.2)	(24.8)
At 1 January 2023	**272.5**	**9.4**	**21.4**	**1,087.8**	**30.0**	**59.1**	**1,480.2**
Additions[1]	**0.1**	**1.3**	**0.3**	**3.3**	**0.6**	**66.1**	**71.7**
Exchange differences	**(7.4)**	**(0.3)**	**(0.9)**	**(31.3)**	**(0.9)**	**(2.4)**	**(43.2)**
Transfer to assets held for sale	**(1.4)**	**–**	**–**	**–**	**–**	**–**	**(1.4)**
Recategorisation	**(1.6)**	**7.0**	**0.3**	**52.1**	**(5.7)**	**(52.1)**	**–**
Eliminated on disposals	**(10.4)**	**(0.6)**	**(0.1)**	**(29.8)**	**(2.8)**	**(0.2)**	**(43.9)**
At 31 December 2023	**251.8**	**16.8**	**21.0**	**1,082.1**	**21.2**	**70.5**	**1,463.4**
Accumulated depreciation and impairment							
At 1 January 2022	119.9	6.0	10.1	702.0	22.0	0.1	860.1
Charge for the year	7.0	1.0	1.5	49.1	1.6	–	60.2
Impairment losses incurred	1.2	–	0.1	3.3	0.1	–	4.7
Exchange differences	8.3	0.1	0.9	49.9	1.5	–	60.7
Recategorisation	(0.5)	0.2	–	0.3	–	–	–
Eliminated on disposals	(2.6)	(0.4)	(1.2)	(16.4)	(1.2)	–	(21.8)
At 1 January 2023	**133.3**	**6.9**	**11.4**	**788.2**	**24.0**	**0.1**	**963.9**
Charge for the year	**6.8**	**0.9**	**1.4**	**48.6**	**1.7**	**–**	**59.4**
Impairment losses incurred	**0.1**	**–**	**–**	**0.8**	**–**	**–**	**0.9**
Exchange differences	**(3.4)**	**(0.3)**	**(0.4)**	**(22.5)**	**(0.7)**	**(0.1)**	**(27.4)**
Transfer to assets held for sale	**(0.9)**	**–**	**–**	**–**	**–**	**–**	**(0.9)**
Recategorisation	**(5.7)**	**5.9**	**(1.2)**	**6.3**	**(5.3)**	**–**	**–**
Eliminated on disposals	**(4.1)**	**(0.6)**	**(0.1)**	**(29.9)**	**(2.7)**	**–**	**(37.4)**
At 31 December 2023	**126.1**	**12.8**	**11.1**	**791.5**	**17.0**	**–**	**958.5**
Carrying amount							
At 31 December 2023	**125.7**	**4.0**	**9.9**	**290.6**	**4.2**	**70.5**	**504.9**
At 31 December 2022	139.2	2.5	10.0	299.6	6.0	59.0	516.3

1 For further information on capital payables and accruals see note 20.

At 31 December 2023 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £21.1m (2022: £9.4m).

Notes to the consolidated financial statements continued

Year ended 31 December 2023

11. Property, plant and equipment continued

Property, plant and equipment impairments of £0.9m were incurred in the year (2022: £4.8m) that relate to assets that were deemed to no longer be required. Net asset impairments incurred in 2022 of £4.7m include £0.1m asset impairment reversal. All impairments in 2023 and 2022 were written to £nil carrying value. Net asset impairments broken down by business segment are shown in the table below:

	2023 £m	2022 £m
ADE:		
Western Europe	**–**	–
North America	**0.2**	0.1
Emerging Markets	**0.3**	–
AGI:		
Western Europe	**–**	–
North America	**0.4**	4.6
	0.9	4.7

As at 31 December 2023 property assets with a net book value of £0.5m were classified as a current asset held for sale (2022: £0.3m) (see note 16 for details). The Group also disposed of certain property assets with net proceeds recorded of £9.4m (2022: £3.2m). A gain on sale was recorded in operating profit in the consolidated income statement of £3.4m (2022: £1.7m) and a loss on sale of certain assets related to the 2020 restructuring programme included in exceptional items of £nil (2022: £0.1m).

12. Right-of-use assets

As a lessee

Information about leases for which the Group is the lessee is presented below:

	Land, buildings, fixtures and fittings £m	**Plant and machinery £m**	**Vehicles £m**	**Total £m**
Cost or valuation				
At 1 January 2022	125.3	20.6	17.8	163.7
Additions	9.0	1.3	1.6	11.9
Eliminated on disposals	(1.2)	(0.8)	(1.5)	(3.5)
Exchange differences	9.3	1.5	1.2	12.0
At 1 January 2023	**142.4**	**22.6**	**19.1**	**184.1**
Additions	**9.2**	**1.9**	**3.4**	**14.5**
Eliminated on disposals	**(10.0)**	**(2.7)**	**(3.4)**	**(16.1)**
Exchange differences	**(3.7)**	**(0.7)**	**(0.8)**	**(5.2)**
At 31 December 2023	**137.9**	**21.1**	**18.3**	**177.3**
Accumulated depreciation				
At 1 January 2022	76.2	16.2	13.7	106.1
Charge for the year	8.4	2.2	2.4	13.0
Eliminated on disposals	(0.9)	(0.8)	(1.3)	(3.0)
Exchange differences	6.1	1.3	1.0	8.4
At 1 January 2023	**89.8**	**18.9**	**15.8**	**124.5**
Charge for the year	**9.0**	**1.7**	**2.2**	**12.9**
Eliminated on disposals	**(9.4)**	**(2.7)**	**(3.2)**	**(15.3)**
Exchange differences	**(2.2)**	**(0.5)**	**(0.6)**	**(3.3)**
At 31 December 2023	**87.2**	**17.4**	**14.2**	**118.8**
Carrying amount				
At 31 December 2023	**50.7**	**3.7**	**4.1**	**58.5**
At 31 December 2022	52.6	3.7	3.3	59.6

12. Right-of-use assets continued

Lease liabilities

Maturity analysis – contractual undiscounted cash flows	2023 £m	2022 £m
Less than one year	**12.3**	14.3
One to five years	**33.4**	33.9
More than five years	**53.4**	55.7
Total undiscounted cash flows	**99.1**	103.9

	2023 £m	2022 £m
At 1 January	**66.0**	64.5
Additions	**14.6**	11.7
Disposals	**(0.8)**	(0.7)
Principal and interest repayments	**(13.1)**	(13.8)
Exchange differences	**(2.4)**	4.3
At 31 December	**64.3**	66.0
Current	**11.8**	12.3
Non-current	**52.5**	53.7

Amounts recognised in the consolidated income statement	2023 £m	2022 £m
Depreciation charge	**12.9**	13.0
Interest on lease liabilities	**2.3**	1.8
Expenses relating to short-term leases	**0.9**	1.1
Expenses relating to leases of low value assets	**0.8**	0.7
Gain on disposal of right-of-use assets	**(0.2)**	(0.1)

Contracts may contain both lease and non-lease components such as administrative charges and taxes. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

As a lessor

The Group sub-leases a small number of properties. There were no material arrangements where the Group is the lessor.

13. Inventories

	2023 £m	2022 £m
Raw materials	**26.7**	23.9
Work-in-progress	**2.6**	4.1
Finished goods and goods for resale	**0.9**	0.9
Less: obsolescence provision	**(0.7)**	(1.1)
	29.5	27.8

Inventory expensed in the years ended 31 December 2023 and 2022 is disclosed in note 2.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

14. Trade and other receivables

	2023 £m	2022 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	**130.8**	135.8
Allowance for expected credit loss	**(2.8)**	(2.9)
Net trade receivables	**128.0**	132.9
Other receivables	**10.3**	11.7
Prepayments	**10.1**	9.8
	148.4	154.4
Amounts falling due after more than one year:		
Trade and other receivables	**1.3**	1.5

The credit period given to customers for the supply of services as at 31 December 2023 is 62 days (2022: 63 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £2.8m (2022: £2.9m). This allowance has been determined by reference to expected credit losses as set out in the Group's accounting policies. The carrying amount of trade and other receivables approximates their fair value. Included in the Group's trade receivables balance are specific debtor balances with a carrying amount of £30.1m (2022: £32.0m) which are past due but not impaired at the reporting date.

The Group has assessed these balances for recoverability and considers the credit quality intact and that any impairment would be de minimis for recognition.

Ageing analysis of net trade receivables:

	2023 £m	2022 £m
Trade receivables within terms	**97.9**	100.9
Ageing of past due but not impaired receivables:		
31-60 days	**15.1**	17.0
61-90 days	**11.5**	10.3
91-120 days	**2.3**	3.2
Greater than 120 days	**1.2**	1.5
	128.0	132.9

Movement in the allowance for expected credit loss:

	2023 £m	2022 £m
At 1 January	**2.9**	2.8
Impairment losses recognised	**1.0**	1.3
Amounts written off as uncollectable	**(0.2)**	(0.2)
Impairment losses reversed	**(0.8)**	(1.2)
Exchange differences	**(0.1)**	0.2
At 31 December	**2.8**	2.9

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 Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's recent history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. 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 expected credit loss.

Included in the allowance for expected credit loss are impaired trade receivables with a gross balance of £5.8m (2022: £6.5m) which are carried net after the expected credit loss provision at £3.0m (2022: £3.6m). Impairments recognised represent the difference between the carrying amount of the 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:

	2023 £m	2022 £m
Less than 3 months	**0.2**	0.3
3-12 months	**1.8**	2.2
Over 12 months	**3.8**	4.0
	5.8	6.5

15. Cash and bank balances

Cash and bank balances comprise cash held by the Group and a breakdown of significant cash and bank balances by currency is as follows:

	2023 £m	2022 £m
US dollar	**24.4**	10.6
Euro	**3.5**	7.3
Sterling	**3.7**	3.1
Chinese yuan	**11.0**	10.3
Swedish krona	**0.8**	1.9
Other	**1.8**	4.0
Total cash and bank balances[1]	**45.2**	37.2

1 Refer to note 17 for an analysis of overdraft by currency.

16. Assets held for sale

Included in assets held for sale are £0.5m (2022: £0.3m) of assets that are actively being marketed for sale. During the year assets of £0.3m previously recorded as held for sale as at 31 December 2022 were sold. Assets classified as held for sale are recorded at the lower of their carrying amount and fair value less costs to sell. Current assets held for sale are analysed between operating segments as follows:

	2023 £m	2022 £m
AGI:		
Western Europe	**–**	0.3
ADE:		
Western Europe	**0.5**	–
	0.5	0.3

17. Borrowings

	2023 £m	2022 £m
Revolving Credit Facility	**32.1**	69.6
Bank overdrafts	**0.5**	1.0
Total borrowings	**32.6**	70.6
Weighted average interest rate paid	**5.3%**	4.2%
Analysis of Revolving Credit Facility drawdowns by currency:		
US dollar	**–**	12.0
Euro	**32.1**	34.6
Sterling	**–**	23.0
	32.1	69.6
Analysis of bank overdrafts by currency:		
US dollar	**–**	1.0
Euro	**0.2**	–
Swiss Franc	**0.3**	–
	0.5	1.0

The majority of bank overdrafts are repayable on demand. No overdrafts are secured.

The Group has a £250.9m Revolving Credit Facility which commenced on 27 May 2020 which is due to expire on 27 May 2027. At 31 December 2023, the Group's Revolving Credit Facility had total drawings of £32.1m (2022: £69.6m). As at 31 December the RCF is drawn in euros only, but through the year was drawn down in sterling, US dollars (USD) and euros (EUR) and as such was subject to foreign exchange movements of EUR and USD amounting to a loss of £1.4m. See section (e) in note 18 for information on the related net investment hedge.

All borrowings are classified as financial liabilities measured at amortised cost. Given their short-term nature, the carrying amount of bank overdrafts approximate their fair value.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

17. Borrowings continued

Other financial liabilities

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 or has the intention to pay. The table includes both interest and principal cash flows.

	Less than 1 year 2023 £m	**1-2 years 2023 £m**	**2-5 years 2023 £m**	**5+ years 2023 £m**	**Total 2023 £m**
Non-interest bearing financial liabilities[1]	**65.8**	**0.1**	**–**	**–**	**65.9**
Bank loans and overdrafts	**32.6**	**–**	**–**	**–**	**32.6**
Lease liabilities	**12.3**	**10.6**	**22.8**	**53.4**	**99.1**
	110.7	**10.7**	**22.8**	**53.4**	**197.6**

	Less than 1 year 2022 £m	1-2 years 2022 £m	2-5 years 2022 £m	5+ years 2022 £m	Total 2022 £m
Non-interest-bearing financial liabilities[1]	72.2	0.2	–	–	72.4
Bank loans and overdrafts	70.6	–	–	–	70.6
Lease liabilities	14.3	11.6	22.3	55.7	103.9
Derivative financial instruments	0.3	–	–	–	0.3
	157.4	11.8	22.3	55.7	247.2

1 Excludes payroll related accruals of £37.0m (2022: £31.9m) which are financial instruments held at amortised cost but are paid immediately after year end.

Of the £32.6m (2022: £70.6m) bank loans and overdrafts disclosed above, £32.1m (2022: £69.6m) of bank loans are drawn under the committed facility maturing on 27 May 2027. The overdrafts are predominantly repayable on demand and some are part of pooling arrangements, which include offsetting cash balances. The net impact on the balance sheet of derivative cash flows was £nil (2022: liability of £0.3m).

18. Financial instruments

(a) Financial instruments by category

In accordance with IFRS 9, the Group categorises its financial instruments into those measured at 'amortised cost', 'fair value through profit or loss' and 'fair value through other comprehensive income'.

Financial assets	Fair value hierarchy	At amortised cost 2023 £m	At fair value through profit or loss 2023 £m	At fair value through OCI 2023 £m	Total 2023 £m
Trade and other receivables		**133.9**	**–**	**–**	**133.9**
Cash and bank balances		**45.2**	**–**	**–**	**45.2**
		179.1	**–**	**–**	**179.1**

Financial assets	Fair value hierarchy	At amortised cost 2022 £m	At fair value through profit or loss 2022 £m	At fair value through OCI 2022 £m	Total 2022 £m
Trade and other receivables		141.4	–	–	141.4
Cash and bank balances		37.2	–	–	37.2
		178.6	–	–	178.6

Financial liabilities	Fair value hierarchy	At amortised cost 2023 £m	At fair value through profit or loss 2023 £m	At fair value through OCI 2023 £m	Total 2023 £m
Borrowings – loans and overdrafts		**32.6**	**–**	**–**	**32.6**
Lease liabilities		**64.3**	**–**	**–**	**64.3**
Trade and other payables[1]		**62.2**	**–**	**–**	**62.2**
		159.1	**–**	**–**	**159.1**

Financial liabilities	Fair value hierarchy	At amortised cost 2022 £m	At fair value through profit or loss 2022 £m	At fair value through OCI 2022 £m	Total 2022 £m
Borrowings – loans and overdrafts		70.6	–	–	70.6
Lease liabilities		66.0	–	–	66.0
Trade and other payables[1]		69.0	–	–	69.0
Other non-current liabilities	Level 2/3	0.1	–	–	0.1
Derivative financial instruments	Level 2	–	–	0.3	0.3
		205.7	–	0.3	206.0

1 Excludes payroll related accruals of £37.0m (2022: £31.9m) which are financial instruments held at amortised cost but are paid immediately after year end.

For information on the derivative financial instruments with a fair value of £nil (2022: liability £0.3m) refer to section (d) of note 18.

(b) Fair value measurement

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the year. The carrying values of financial instruments at amortised cost as presented in the consolidated financial statements approximate their fair values.

(c) Financial risk management

The Group's multinational operations expose it to a variety of financial risks. In the course of its business, the Group may be exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management and treasury policies are set by the Board. 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.

In accordance with its treasury policy, the Group does not use or hold derivative financial instruments for trading or speculative purposes. The Group may however use derivative instruments, for risk management purposes only, transacted by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved according to treasury policy, where the effect is to minimise risk for the Group. 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

18. Financial instruments continued

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, strategic planning, annual budget agreed by the Board each year and re-forecasts undertaken during the financial year. To mitigate the risk, the resulting forecast net cash/(debt) is measured against the liquidity headroom policy which requires a minimum liquidity headroom of £75m.

As at 31 December 2023, the Group had £218.8m (2022: £181.3m) available on the committed Revolving Credit Facility of £250.9m which together with cash and cash equivalents of £45.2m (2022: £37.2m), and available committed overdraft facilities of £9.5m (2022: £4.5m), resulted in available liquidity headroom of £273.5m (2022: £223.0m). 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 2023 the Group's principal committed bank facility of £250.9m had a maturity date of 27 May 2027 (3.4 years to maturity) and had drawings of £32.1m (2022: £69.6m).

Cash management pooling, netting and concentration techniques are used to minimise borrowings.

Credit risk

Credit risk primarily arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments 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 appropriate allowances for expected credit losses based on a simplified lifetime Expected Credit Loss (ECL) model to assess trade receivables for impairment where ECL is the present value of all cash shortfalls over the expected life of a trade receivable. An allowance for impairment is made when one or more events have occurred that have a significant impact on the expected future cash flows of the financial asset such that there is sufficient evidence of a reduction in the recoverability of the asset. The quantitative analysis of credit risk relating to receivables is included in note 14.

Counterparty risk encompasses settlement risk on derivative financial instruments and credit risk on cash and term deposits. 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. The credit risk on liquid funds (cash balances) and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and Group policy is to enter into such transactions with a preference with counterparties with an investment grade rating. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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 rates in the UK, Europe and the USA.

Interest rate sensitivity

To represent management's best estimate of a reasonable range of potential outcomes, the Group has measured the estimated change to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, which did not indicate any material impact on the financial statements. This analysis was for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post-employment benefit obligations.

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; 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 2023 would increase or reduce profit before tax by approximately £0.1m (2022: £0.7m). There is no significant impact on equity in the current or previous year.

18. Financial instruments continued

Currency risk

Bodycote has operations in 22 countries and is therefore exposed to foreign exchange translation risk when the profits/losses and net assets of these entities are consolidated into the Group's financial statements.

Ninety-two per cent of the Group's revenues are in currencies other than sterling (EUR 37%, USD 34% and SEK 6%, and others at or below 3% individually, total 15%). Cumulatively over the year, sterling rates moved such that the revenue for the year was £3.0m lower than it would have been had the revenue been translated at the rates prevailing in 2022.

It is Group policy not to hedge exposure for the translation of reported profits. Refer to section (e) for further disclosure of the Group's financial instrument risk management activities.

The Group's balance sheet translation policy is not to actively hedge currency net assets but where appropriate the Group will still match centrally held currency borrowings to the net assets. The Group generally borrows in sterling, US dollars and euros, consistent with the locations where the majority of the Group's cash flows are generated. The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances (see section (e)).

Transactional 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 92% of the Group's revenues are generated outside the UK, the nature of the business is such that cross-border sales and purchases are limited and immaterial for the Group.

Currency sensitivity

Taking the 2023 revenue by currency, a 10% weakening/strengthening in the 2023 cumulative average rates for all currencies versus sterling would have given rise to a +£81.8m /-£66.9m movement in revenue respectively. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2023 operating profit mix, a 10% weakening/strengthening in 2023 cumulative average rates for all currencies would have given rise to a +£12.3m/-£10.0m movement in headline operating profit.

(d) Derivative financial instruments

The Group's derivative financial instruments were 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).

In accordance with IFRS 7 Financial Instruments: Disclosures, 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 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. At the balance sheet date, the Group has no outstanding interest rate derivative.

(e) Net investment hedge

During the year the Group's outstanding Revolving Credit Facility drawings were denominated in GBP, USD, and EUR. Certain EUR and USD amounts were designated as a net investment hedge through the year to the Group's subsidiaries with a matching functional currency on a 1:1 ratio. As at 31 December the Revolving Credit Facility was drawn only in EUR and consequently the USD net investment hedge was open but inactive. The effects and performance of the active net investment hedges as at 31 December 2023 are set out as follows:

EUR Net investment hedge	**2023 £m**	**2023 €m**	2022 £m	2022 €m
Carrying amount of the hedging instruments	**32.1**	**37.0**	43.5	49.0
Carrying amount of the hedged items (net assets of subsidiaries) and denominations	**32.1**	**37.0**	43.5	49.0
Hedge ratio	**1:1**	**–**	1:1	–
Change in hedging instruments carrying amount as a result of foreign currency movements from 1 January 2023	**0.9**	**–**	(2.1)	–
Change in value of hedged item used to determine hedge effectiveness	**(0.9)**	**–**	2.1	–

The gain on the net investment hedge of £1.5m (2022: £3.1m loss), made up of £0.9m on the EUR hedge (2022: £2.1m loss) and £0.6m on the USD hedge (2022: £1.0m loss) has been recognised in other comprehensive income and accumulated in other reserves in shareholders' equity. There was no ineffectiveness to be recorded from the net investment hedges.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

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 2022	50.0	(1.8)	(3.2)	(0.2)	44.8
Charge/(credit) to the consolidated income statement	0.5	(0.1)	0.2	(1.2)	(0.6)
Debit to equity	–	–	0.2	0.3	0.5
Transfers	1.7	(1.7)	–	–	–
Exchange differences	4.3	(0.1)	(0.2)	(0.1)	3.9
Effect of change in tax rate in the income statement	1.0	–	–	(0.1)	0.9
At 1 January 2023	**57.5**	**(3.7)**	**(3.0)**	**(1.3)**	**49.5**
Charge/(credit) to the consolidated income statement	**5.9**	**0.3**	**0.2**	**(5.1)**	**1.3**
Credit to equity	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Exchange differences	**(2.3)**	**0.1**	**–**	**0.4**	**(1.8)**
Effect of change in tax rate in the income statement	**0.3**	**–**	**–**	**–**	**0.3**
At 31 December 2023	**61.4**	**(3.3)**	**(2.8)**	**(6.1)**	**49.2**

	2023 £m	2022 £m
Deferred tax liabilities	**51.8**	51.0
Deferred tax assets	**(2.6)**	(1.5)
	49.2	49.5

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.

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 £33.1m (2022: £37.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £13.6m (2022: £15.7m) of such losses, based on existing taxable temporary differences generating 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 £19.5m (2022: £21.9m) of the losses where the likelihood that sufficient taxable profits of the appropriate type is not probable. The majority of losses may be carried forward indefinitely.

The Group has capital losses of £53.3m (2022: £52.4m) which are not recognised for deferred tax as future suitable profits against which the losses could be utilised are not probable. A deferred tax liability of £3.9m (2022: £3.1m) relating to the temporary differences on unremitted earnings of overseas subsidiaries has been recognised as the Group believes it is probable that these temporary differences will reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

The majority of the deferred tax liability is expected to reverse in over 12 months.

20. Trade and other payables

	2023 £m	2022 £m
Working capital amounts falling due within one year:		
Trade payables	**20.8**	30.8
Other taxes and social security	**19.8**	20.7
Other payables	**6.1**	4.9
Trade accruals[1]	**64.7**	55.8
	111.4	112.2
Other amounts falling due within one year:		
Interest payable	**2.7**	1.7
Capital payables	**4.6**	5.6
Capital accruals	**4.0**	5.4
	11.3	12.7
Total amounts falling due within one year:	**122.7**	124.9
Working capital amounts falling due after more than one year:		
Other payables	**0.9**	1.1

1 Accruals include £37.0m (2022: £31.9m) of payroll-related accruals.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases as at 31 December 2023 is 22 days (2022: 35 days). The Directors consider the carrying value of trade payables to approximate to their fair value.

21. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Legal and operational £m	Total £m
At 1 January 2023	**1.6**	**2.4**	**8.9**	**5.2**	**18.1**
Increase in provision	**0.8**	**0.2**	**1.1**	**3.4**	**5.5**
Release of provision	**(0.4)**	**(0.1)**	**–**	**(0.5)**	**(1.0)**
Utilisation of provision	**(1.5)**	**(0.1)**	**(2.5)**	**(2.8)**	**(6.9)**
Exchange difference	**–**	**(0.2)**	**(0.5)**	**–**	**(0.7)**
At 31 December 2023	**0.5**	**2.2**	**7.0**	**5.3**	**15.0**
Included in current liabilities					**12.0**
Included in non-current liabilities					**3.0**
					15.0

As at 31 December 2023 the Group held £1.4m (2022: £3.0m) of exceptional restructuring provisions relating to the 2020 exceptional restructuring programme. Refer to the 2020 Annual report for more information.

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

Legal provisions include, but are not limited to, alleged breach of contract and alleged breach of environmental legislation. While the Group cannot predict the outcome of individual legal actions, where the exposure can be reliably measured and an outflow of economic benefits is considered probable, provisions are recognised following legal advice.

There were no individually material provisions as at 31 December 2023.

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.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

22. Share capital

	2023 £m	2022 £m
Authorised: 248,947,368 (2022: 248,947,368) ordinary shares of 17 3/11p each	**43.0**	43.0
Issued and fully paid: 191,456,172 (2022: 191,456,172) ordinary shares of 17 3/11p each	**33.1**	33.1

23. Notes to the cash flow statement

	2023 £m	2022 £m
Profit for the year	**86.8**	74.3
Adjustments for:		
Finance income	**(0.8)**	(0.4)
Finance costs	**8.3**	7.1
Taxation charge	**24.9**	21.0
Operating profit	**119.2**	102.0
Adjustments for:		
Depreciation of property, plant and equipment	**59.4**	60.2
Depreciation of right-of-use assets	**12.9**	13.0
Amortisation of other intangible assets	**9.8**	11.1
Profit on disposal of property, plant and equipment recognised in operating profit	**(3.4)**	(1.7)
Loss on disposal of property, plant and equipment recognised in exceptional items	**–**	0.1
Profit on disposal of right-of-use assets	**(0.2)**	(0.1)
Share-based payments	**5.1**	1.7
Impairment reversal of property, plant and equipment and other assets recognised in exceptional items	**–**	(0.1)
Impairment of property, plant and equipment and other assets recognised in operating profit	**0.9**	4.8
EBITDA (See APM definition on page 153)	**203.7**	191.0
Increase in inventories	**(1.7)**	(8.5)
Decrease/(increase) in receivables	**6.2**	(37.4)
(Decrease)/increase in payables	**(1.0)**	12.6
Decrease in provisions	**(3.1)**	(3.7)
Cash generated by operations	**204.1**	154.0
Net income taxes paid	**(9.0)**	(15.4)
Settlement of derivatives	**(0.3)**	0.8
Refund of post settlement pension surplus	**–**	1.8
Net exchange differences	**(3.2)**	1.7
Net cash from operating activities	**191.6**	142.9

	2023 £m	2022 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**45.2**	37.2
Bank overdrafts (included in borrowings)	**(0.5)**	(1.0)
	44.7	36.2

The cash and cash equivalents disclosed above in the statement of cash flows includes £0.8m (2022: £0.8m) held in escrow relating to environmental provisions in the USA and £1.3m (2022: £1.8m) held in the USA related to the refund of a pension surplus. The Group intends to use this refund of pension surplus cash to fund future pension contributions for its USA employees, otherwise the full amount will become subject to regulatory restrictions in the USA.

24. Share-based payments

The Company operates the Bodycote Incentive Plan (BIP) under which Executive Directors and Senior Executives receive a conditional award of Bodycote shares up to a maximum of 175% of base salary. Vesting of awards are based upon two performance measures, over a three-year period.

	BIP 2023	BIP 2022	**Other Plans 2023**	Other Plans 2022
At 1 January	**5,337,784**	4,499,730	**484,211**	311,335
Granted during the year	**2,867,954**	2,086,698	**298,682**	242,384
Exercised during the year	**(206,935)**	(75,460)	**(139,947)**	(61,377)
Expired during the year	**(1,996,812)**	(1,173,184)	**(18,041)**	(8,131)
At 31 December	**6,001,991**	5,337,784	**624,905**	484,211
Average fair value of share awards granted during the year at date of grant (pence)	**555.1**	549.5	**608.3**	583.8
Fair value of awards granted during the year (£)	**15,919,411**	11,465,911	**1,816,981**	1,414,922

Fifty percent of the award is subject to a return on capital employed (ROCE) performance condition and 50% of the award is subject to headline operating profit or headline earnings per share (EPS) performance conditions. In the event that an underpin headline EPS target is not achieved, no awards will vest.

Other plans include buy-out awards, a restricted share programme and a deferred bonus plan whereby 35% of any bonus earned is deferred into shares. Buy-out award shares issued vest between 1 and 24 months from the grant date, other plans shares issued vest after three years from the grant date, and all are conditional only on continued employment.

More information on the BIP and the buy-out awards for Executive Directors can be found in the Directors' remuneration report on pages 77 to 91.

The exercise price of shares exercised was £nil. As at 31 December 2023 of 84,387 exercisable shares outstanding, 70,610 were related to BIP and 25,548 related to other plans. The inputs to the Black-Scholes simulation model, used to determine the charge to the income statement for BIP, are as follows:

	BIP 2023	BIP 2022	**Other Plans 2023**	Other Plans 2022
Weighted average share price (pence)	**608.3**	592.7	**634.3**	616.6
Weighted average exercise price (pence)	**nil**	nil	**nil**	nil
Expected life (years)	**3.0**	3.0	**0.1-3.0**	3.0
Expected dividend yields (%)	**3.0**	2.5	**3.0**	0.0-2.5
Weighted average remaining contractual life of shares outstanding (years)	**1.2**	1.0	**1.1**	1.7
Average fair value of share awards granted during the year at date of grant (pence)	**555.1**	549.5	**608.3**	583.8
Fair value of awards granted during the year (£)	**15,919,411**	11,465,911	**1,816,981**	1,414,922

The Group recognised a total charge to the consolidated income statement of £5.1m (2022: £1.7m) related to equity-settled share-based payment transactions, excluding social charges.

25. Related party transactions

Transactions between subsidiaries of the Group, which are related parties to each other, have been eliminated on consolidation and are not disclosed in this note. For information on defined benefit retirement pension schemes that the Group operates see note 26.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

	2023 £m	2022 £m
Short-term employee benefits	**3.5**	2.5
Share based payments	**1.8**	0.2
Pensions	**0.2**	0.2
	5.5	2.9

Further information about the remuneration of the individual Directors is provided in the Directors' report on remuneration on pages 77 to 91.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

26. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for employees in the UK, France, Belgium and Canada. 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, Slovakia, Switzerland 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 the consolidated income statement of £8.3m (2022: £7.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2023 contributions of £0.3m (2022: £0.4m) 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:

Defined benefit obligation less fair value of assets

	2023 £m	2022 £m
UK Scheme	**–**	–
Non-UK Schemes	**11.1**	10.9
	11.1	10.9

Total expense recognised in the income statement

	2023 £m	2022 £m
UK Scheme[1]	**0.4**	0.5
Non-UK Schemes[1]	**0.8**	0.7
	1.2	1.2

1 The UK Scheme is closed to new members and the accrual of benefits and the costs represent administrative and past service credits and costs. Costs associated with the non-UK schemes relate to employee service and related costs (see note 3) and administrative costs (see note 2).

UK Scheme

The Group sponsors the Bodycote UK Pension Scheme ('the Scheme') which is a funded defined benefit arrangement for certain former UK employees, and pays out pensions at retirement based on service, final pensionable pay and price inflation. The Scheme is funded by the Group. The scheme asset values are sensitive to market conditions and the scheme liabilities are sensitive to actuarial assumptions used to determine the scheme obligations, the main assumptions of which are the discount rate, the rate of price inflation and the life expectancy rate. The following table provides an estimate of the potential impact on the pension scheme of changing these assumptions.

	2023 Increase £m	**2023 Decrease £m**	2022 Increase £m	2022 Decrease £m
0.5% change in discount rate	**(3.6)**	**4.0**	(4.1)	4.5
0.5% change in price inflation (and associated assumptions)	**1.4**	**(1.3)**	1.6	(1.5)
One year change in life expectancy at age 65	**2.6**	**(2.6)**	2.2	(2.2)

The sensitivity analysis was performed by recalculating the defined benefit obligation with the following parameters (all other parameters were not modified). The sensitivity table is based on an illustrative 0.5% change, although the assumptions may vary by greater amounts. Therefore, the Group considers the retirement benefit obligations a key source of estimation uncertainty.

The Scheme operates under UK trust law and the trust is a separate legal entity from the Group. The Scheme is governed by a board of trustees, composed of two member representatives, two employer representatives and one independent trustee. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment, funding) together with the Group.

Funding of the Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group in respect of the 6 April 2017 actuarial valuation. The preliminary actuarial valuation of the Scheme as at 6 April 2023 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2023.

26. Retirement benefit schemes continued

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the consolidated income statement and in the consolidated statement of comprehensive income. The UK Scheme was closed to new entrants and future accrual in 2019.

In June 2023, the High Court judged that amendments made to the Virgin Media scheme were invalid because the scheme's actuary did not provide the associated S37 certificate necessary. If upheld, the High Court's decision could have wider ranging implications, affecting other schemes (such as the Bodycote UK Pension Scheme) that were contracted-out on a salary-related basis, and made amendments between April 1997 and April 2016.

There remains uncertainty about the impact of this judgment with a Court of Appeal hearing for the case set for June 2024 as well as the potential for overriding government legislation to be introduced and consequently the Company and the Trustee of the Bodycote UK Pension Scheme are not yet in a position to be certain of the full potential implications in detail. The Company and the Trustee of the Scheme will continue to seek legal advice on the matter and act accordingly as the situation evolves.

The Group acknowledges that the recognition of a pension scheme surplus is an area of accounting judgement, which depends on the interpretation of the wording of the Scheme Rules and the relevant accounting standard, IFRIC 14. In the Group's view there is uncertainty over whether the wording of the Scheme Rules provides the Group with an unconditional right to a refund of any surplus from the Scheme either on an ongoing basis or assuming the full settlement of Scheme liabilities. The Group's interpretation of the Scheme Rules is that there is material uncertainty over whether the power to wind up the Scheme is wholly within the Group's control as would be required under the terms of IFRIC 14 in order to recognise a surplus on the balance sheet. Consistent with previous years, given this uncertainty the Group has adopted the provisions of IFRIC 14 and the associated additional reporting requirements. As the Scheme is in surplus as at 31 December 2023 a restriction has been applied to the balance sheet, and the net surplus recognised on the balance sheet has been restricted to £nil.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (UK Scheme)

	2023 £m	2022 £m
Defined benefit obligation at start of year	**64.4**	101.9
Interest expense	**2.9**	1.8
Actuarial gains arising from changes in demographic assumptions	**(3.2)**	(0.5)
Actuarial losses/(gains) arising from changes in financial assumptions	**1.5**	(35.4)
Experience losses	**0.3**	3.3
Benefits paid, death in service insurance premiums and expenses	**(3.1)**	(6.8)
Past service (credit)/cost	**(0.1)**	0.1
Defined benefit obligation at end of year	**62.7**	64.4

Reconciliation of opening and closing balances of the fair value of the assets (UK Scheme)

	2023 £m	2022 £m
Fair value of assets at start of year	**67.4**	115.9
Interest income	**3.1**	2.0
Return on scheme assets excluding interest income	**0.3**	(43.7)
Scheme administration expenses	**(0.5)**	(0.4)
Contributions by employer	**0.4**	0.4
Benefits paid, death in service insurance premiums and expenses	**(3.1)**	(6.8)
Fair value of assets at end of year	**67.6**	67.4

Total expense recognised in the income statement (UK Scheme)

	2023 £m	2022 £m
Past service (credit)/cost	**(0.1)**	0.1
Scheme administration expenses	**0.5**	0.4
	0.4	0.5

Assets (UK Scheme)

	2023 Quoted[1] £m	**2023 Unquoted £m**	2022 Quoted[1] £m	2022 Unquoted £m
Bonds	**13.6**	**2.9**	12.8	6.0
Liability Driven Investment	**21.9**	**–**	15.4	–
Diversified credit funds	**15.4**	**3.7**	12.0	11.8
Cash and cash equivalents	**10.1**	**–**	9.4	–
	61.0	**6.6**	49.6	17.8

1 Quoted scheme assets include assets which have a quoted market price in active markets held within investment trusts.

Notes to the consolidated financial statements continued

Year ended 31 December 2023

26. Retirement benefit schemes continued

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 current strategic target is to allocate 19% of the investment strategy to non-matching asset classes, predominantly longer-term credit based investments and 81% to a liability-matching portfolio, comprising Liability Driven Investment ('LDI'), money market and shorter-term credit based investments. The LDI portion of the strategy has been put in place to reduce interest and inflation risk. LDIs are held in pooled investment vehicles and include over the counter derivatives and quoted equities designated to move in line with the defined benefit liability.

Assumptions for 2023 (UK Scheme)

	2023 % per annum	2022 % per annum
RPI inflation	**3.20**	3.25
CPI inflation	**2.90**	2.95
Salary increases	**n/a**	n/a
Rate of discount	**4.50**	4.70
Allowance for pension in payment increases of 3% or RPI if lower	**2.18**	2.12
Allowance for revaluation of deferred pensions	**2.90**	2.95

Mortality – current pensioners (UK Scheme)

	2023	2022
Actuarial tables used	**S³PxA YoB CMI 2021 1.5% long-term trend**	S³PxA YoB CMI 2020 1.5% long-term trend
Life expectancy for members currently aged 65	**19.8**	21.3

Mortality – future pensioners (UK Scheme)

	2023	2022
Actuarial tables used	**S³PxA YoB CMI 2021 1.5% long-term trend**	S³PxA YoB CMI 2020 1.5% long-term trend
Life expectancy at age 65 for members currently aged 45	**20.7**	22.9

	2023	2022
Cash commutation:	**All members commute 75% of maximum permitted**	All members commute 75% of maximum permitted

The weighted average duration of the defined benefit obligation at 31 December 2023 is approximately 12 years (31 December 2022: 15 years).

The defined benefit obligation at 31 December 2023 can be approximately attributed to the scheme members as follows:

- Active members: 0% (2022: 0%)
- Deferred members: 41% (2022: 40%)
- Pensioner members: 59% (2022: 60%)

All benefits are vested at 31 December 2023 (unchanged from 2022).

Present value of defined benefit obligations, fair value of assets and deficit (UK Scheme)

	2023 £m	2022 £m
Present value of defined benefit obligation	**62.7**	64.4
Fair value of plan assets	**(67.6)**	(67.4)
Scheme surplus	**(4.9)**	(3.0)
Adjustment relating to asset ceilings and minimum funding requirements	**4.9**	3.0
Net defined benefit asset before deferred tax	**–**	–

26. Retirement benefit schemes continued

Reconciliation of asset ceiling (UK Scheme)

	2023 £m	2022 £m
Restriction due to asset ceiling at beginning of period	3.0	14.0
Interest on asset restriction	0.2	0.2
Other changes in asset restriction	1.7	(11.2)
Restriction due to asset ceiling at end of period	4.9	3.0

The best estimate of contributions to be paid into the plan for the year ending 31 December 2024 is £0.4m.

Amounts recognised in other comprehensive income (UK Scheme)

	2023 £m	2022 £m
Return on scheme assets excluding interest income	0.3	(43.7)
Actuarial (losses)/gains arising from changes in financial assumptions	(1.5)	35.4
Actuarial gains arising from changes in demographic assumptions	3.2	0.5
Experience losses on liabilities	(0.3)	(3.3)
(Loss)/gain due to change in asset restriction	(1.7)	11.2
Total gain recognised in other comprehensive income	–	0.1

Combined non-UK disclosures

The Group operates defined benefit schemes in continental Europe.

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

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (non-UK schemes)

	2023 £m	2022 £m
Defined benefit obligation at start of year	16.2	24.0
Current service cost	0.4	0.5
Interest expense	0.5	0.2
Actuarial losses arising from changes in demographic assumptions	–	0.5
Actuarial losses/(gains) arising from changes in financial assumptions	0.1	(4.1)
Experience losses/(gains) on liabilities	0.4	(1.5)
Benefits paid, death in service insurance premiums and expenses	(0.6)	(1.6)
Employee contributions	0.1	0.1
Settlements	–	(3.8)
Exchange rate loss	0.2	1.9
Defined benefit obligation at end of year	17.3	16.2

Reconciliation of opening and closing balances of the fair value of plan assets (non-UK schemes)

	2023 £m	2022 £m
Fair value of assets at start of year	5.3	12.2
Interest income	0.1	0.1
Return on scheme assets excluding interest income	0.4	(1.7)
Scheme administration expenses	–	(0.2)
Contributions by employer	0.2	0.1
Contributions by employees	0.1	0.1
Benefits paid, death in service insurance premiums and expenses	–	(0.9)
Settlements	–	(5.4)
Exchange rate gain	0.1	1.0
Fair value of assets at end of year	6.2	5.3

Notes to the consolidated financial statements continued

Year ended 31 December 2023

26. Retirement benefit schemes continued

Total expense recognised in the income statement (non-UK schemes)

	2023 £m	2022 £m
Current service cost	**0.4**	0.5
Net interest on the defined benefit liability	**0.4**	0.1
Scheme administration expenses	**–**	0.2
Settlements	**–**	(0.1)
Total expense	**0.8**	0.7

Assets (non-UK schemes)

	2023 Quoted[1] £m	**2023 Unquoted £m**	2022 Quoted[1] £m	2022 Unquoted £m
Cash and cash equivalents	**–**	**–**	1.7	–
Collective Foundation receivables	**–**	**6.2**	–	5.3
Total	**–**	**6.2**	1.7	5.3

1 Quoted scheme assets include assets which have a quoted market price in active markets held within investment trusts.

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 2023 (non-UK schemes)

	Salary increases % per annum	**Rate of discount % per annum**	**Inflation % per annum**	**Pension increases % per annum**
USA	**n/a**	**n/a**	**n/a**	**n/a**
France	**3.0**	**4.0**	**2.0**	**1.0**
Germany	**2.5**	**3.5**	**n/a**	**2.3**
Italy	**2.5**	**3.3**	**2.5-3.0**	**n/a**
Turkey	**21.0**	**24.5**	**21.0**	**n/a**
Liechtenstein	**2.5**	**1.5**	**n/a**	**n/a**
Switzerland	**n/a**	**2.3**	**n/a**	**n/a**

There were no significant movements compared to the prior year with the exception of Turkey where the rate of discount percentage per annum was increased by 9.5 ppts to 24.5% compared with 2022 and the inflation percentage changed by 10.5 ppts to 21%, both due to the country's current and forecasted high inflation period.

The assumption for the inflation rate % per annum for Italy decreases by 0.5 ppts from 3.0% in 2024 to 2.5% from the year 2025 onwards.

Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2023 range from 9 years to 18 years. The durations ranged from 8 years to 17 years as at 31 December 2022.

26. Retirement benefit schemes continued

Present value of defined benefit obligations, fair value of assets and deficit (non-UK schemes)

	2023 £m	2022 £m
Present value of defined benefit obligation	17.3	16.2
Fair value of plan assets	(6.2)	(5.3)
Deficit in the schemes	11.1	10.9
Adjustment relating to asset ceilings and minimum funding requirements	–	–
Net defined benefit liability, before deferred tax	11.1	10.9

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2023 is that recognised in the balance sheet.

Amounts recognised in other comprehensive income (non-UK schemes)

	£m	£m
Return on scheme assets excluding interest income	0.4	(1.7)
Actuarial (losses)/ gains arising from changes in financial assumptions	(0.1)	4.1
Actuarial loss arising from changes in demographic assumptions	–	(0.5)
Experience (losses)/gains on liabilities	(0.4)	1.5
Gain due to change in asset restriction	–	2.3
Total gain recognised in other comprehensive income	(0.1)	5.7

The only funded plans are those operated in France, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2024 is £0.1m.

Sensitivities (changes to total defined benefit obligations) (non-UK schemes)

	2023		2022	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(0.5)	0.6	(0.5)	0.5
0.25% change in price inflation (and associated assumptions)	0.3	(0.3)	0.3	(0.3)

The sensitivity table is based on an illustrative 0.25% change, although the assumptions may vary by greater amounts. Therefore, the Group considers the retirement benefit obligations a key source of estimation uncertainty.

27. Contingent liabilities

The Group is subject to certain legal proceedings, claims, complaints and investigations arising out of the ordinary course of business. Legal proceedings may include, but are not limited to, alleged breach of contract and alleged breach of environmental, competition, securities and health and safety laws. The Group may not be insured fully, or at all, in respect of such risks. The Group cannot predict the outcome of individual legal actions or claims or complaints or investigations. The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when it considers it has valid defences to liability. The Group considers that no material loss is expected to result from these legal proceedings, claims, complaints and investigations. Provision is made for all liabilities that are expected to materialise through legal and tax claims against the Group.

28. Post-balance sheet events

Acquisition of Lake City Heat Treating

On 19 January 2024 the Group acquired Lake City Heat Treating (Lake City) for a total gross consideration of £52.2m ($66.5m USD) on a cash and debt free basis which was settled through the Group's existing cash and borrowing facilities. This will significantly increase Bodycote's customer reach in the Medical market within the ADE business in North America.

Given the proximity to the year end date an initial accounting and fair value exercise will be completed in the first half of 2024 and the accounting impact of this acquisition and the results of the operations for Lake City will be included in the Group's condensed consolidated interim financial statements for the half year of 2024.

Share repurchase programme

On 22 January 2024, the Company announced its intention to launch a share repurchase programme of up to £60.0m. This will commence on 15 March 2024.

Company balance sheet
At 31 December 2023

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	3	**34.1**	27.1
Property, plant and equipment		**0.2**	0.2
Right-of-use assets	4	**1.3**	0.1
Investments in subsidiaries	5	**388.9**	388.9
Trade and other receivables	6	**6.2**	49.9
		430.7	466.2
Current assets			
Trade and other receivables	6	**5.1**	6.8
		5.1	6.8
Total assets		**435.8**	473.0
Current liabilities			
Trade and other payables	7	**10.4**	7.3
Lease liabilities	4	**0.2**	0.1
		10.6	7.4
Net current liabilities		**(5.5)**	(0.6)
Non-current liabilities			
Trade and other payables	7	**6.5**	4.8
Deferred tax liabilities	8	**2.3**	1.3
Lease liabilities	4	**1.3**	–
		10.1	6.1
Total liabilities		**20.7**	13.5
Net assets		**415.1**	459.5
Equity			
Share capital	9	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(15.7)**	(5.2)
Other reserves		**139.8**	136.6
Profit for year		**3.8**	10.6
Retained earnings		**77.0**	107.3
Total equity		**415.1**	459.5

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 15 March 2024.

They were signed on its behalf by:

S.C. Harris
Director

B. Fidler
Director

Company statement of changes in equity

Year ended 31 December 2023

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m
1 January 2022	33.1	177.1	(6.3)	136.3	145.9	486.1
Profit for the year	–	–	–	–	10.6	10.6
Exchange differences on translation of overseas operations	–	–	–	(0.4)	–	(0.4)
Actuarial gain on defined benefit pension schemes net of deferred tax	–	–	–	–	0.1	0.1
Total comprehensive (expense)/income for the year	–	–	–	(0.4)	10.7	10.3
Dividends paid	–	–	–	–	(38.5)	(38.5)
Share-based payments	–	–	–	1.7	–	1.7
Settlement of share awards	–	–	1.1	(1.0)	(0.2)	(0.1)
31 December 2022	**33.1**	**177.1**	**(5.2)**	**136.6**	**117.9**	**459.5**
Profit for the year	–	–	–	–	3.8	3.8
Exchange differences on translation of overseas operations	–	–	–	0.2	–	0.2
Actuarial gain on defined benefit pension schemes net of deferred tax	–	–	–	–	0.1	0.1
Total comprehensive income for the year	–	–	–	0.2	3.9	4.1
Dividends paid	–	–	–	–	(40.6)	(40.6)
Shares acquired	–	–	(13.2)	–	–	(13.2)
Share-based payments	–	–	–	5.1	–	5.1
Settlement of share awards	–	–	2.7	(2.1)	(0.4)	0.2
31 December 2023	**33.1**	**177.1**	**(15.7)**	**139.8**	**80.8**	**415.1**

Details of dividends paid are set out in note 7 of the Group consolidated financial statements.

Details of share-based payment transactions are set out in note 24 of the Group consolidated financial statements.

Own shares are 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.

In the year ended 31 December 2023, 2,000,000 shares were purchased for the Bodycote International Employee Benefit Trust to satisfy future share-based payments under the Group's share incentive schemes, for an average price of £6.57 at a cost of £13.1m plus purchase costs of £0.1m.

At 31 December 2023, 2,292,243 (2022: 639,125) 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 market value of these shares was £13.6m (2022: £3.6m).

Included in other reserves is £9.6m (2022: £6.6m) relating to a share award reserve and a capital redemption reserve of £129.8m (2022: £129.8m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

Company accounting policies

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below, and have been applied consistently. In accordance with Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, standards not yet effective and related party transactions.

Where required, equivalent disclosures are given in the Group consolidated financial statements of Bodycote plc, which are publicly available.

Dividends

Interim dividend distributions (ordinary and special) to Bodycote plc's ordinary shareholders are recognised when paid and final dividends are accrued when approved by the ordinary shareholders at the Group's Annual General Meeting. Further detail is contained in note 7 of the Group consolidated financial statements.

Going concern

The Directors have at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months and continue to adopt the going concern basis of accounting in preparing the Company's financial statements. Further detail is contained in the Group going concern statement in the Group accounting policies.

Investments

Investments are held at cost less provision for impairment. Any potential impairment is determined whereby the carrying value of the investment is not supported by the net assets of the investment, or discounted future cash flows in the form of expected dividend income.

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 year.

Pension costs

The Company participates in a final salary defined benefit pension scheme in the United Kingdom which is funded by the payment of contributions to a separately administered trust fund. This is a defined benefit plan which shares the risks between entities under common control.

There is no contractual arrangement or policy for charging the net benefit cost between the entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. As such, the Company recognises the net defined benefit cost as per the requirements of IAS 19 Employee Benefits, as described in further detail in the accounting policies applied in the Group consolidated financial statements.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Right-of-use assets

To the extent that a right-of-control exists over an asset subject to a lease, with a lease term exceeding one year, a right-of-use asset, representing the Company's right to use the underlying leased asset, and a lease liability, representing the Company's obligation to make lease payments, are recognised in the Company's balance sheet at the commencement of the lease.

The right-of-use asset is initially measured at cost and includes the amount of initial measurement of the lease liability and any direct costs incurred, including advance lease payments and an estimate of the dismantling, removal and restoration costs required by the terms and conditions of the lease.

Depreciation is charged to the income statement to depreciate the right-of-use asset from the commencement date until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term includes the period of any extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The lease liability is measured at the present value of the future lease payments, including any variable lease payments where applicable that depend on an index and the exercise price of purchased options where it is reasonably certain that the option will be exercised, discounted using the interest rate implicit in the lease, if readily determinable. If the rate cannot be readily determined, the Company's incremental borrowing rate is used. Finance charges are recognised in the income statement over the period of the lease.

Lease arrangements that are short-term in nature or low value are charged directly to the income statement when incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings 10% to 20%

Intangible assets

Intangible assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful lives, at the following annual rates:

Software 10% to 33%

Impairment of tangible and intangible assets

At each balance sheet date, the Company 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 or an asset is not in use and therefore requires an annual test, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to dispose and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years.

A reversal of an impairment loss is recognised as income immediately.

Receivables

Receivables are initially recognised at fair value. 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.

In accordance with IFRS 9, a simplified 12-month Expected Credit Loss (ECL) model is used to assess receivables for impairment.

Amounts owed by subsidiary undertakings falling due after more than one year are classified as such according to the loan agreement in place until 27 May 2027. The interest rate for such facility was at SONIA plus 1.95% margin in 2023.

Payables

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Non-interest-bearing financial liabilities are stated at their nominal value. Trade payables are recognised at fair value.

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

Amounts owed to subsidiary undertakings falling due after more than one year are classified as such according to the loan agreement in place until 27 May 2027. The interest rate for such facility was at SONIA plus 1.2% margin in 2023.

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 temporary 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. Temporary 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 temporary differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Company accounting policies continued

Share-based payments

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.

The Company recognises and maintains the share-based payment reserve for all eligible Group employees. Appropriate provisions for non-Company employees vesting share awards are passed on to other Group companies in the form of a non-interest bearing loan payable to the Company. When share awards are exercised by non-Company employees the Company charges other Group companies for the weighted average cost to purchase the shares exercised. The Company reduces the loan receivable from the other Group company for the shares exercised, recognising the difference between grant and exercise price within retained earnings settlement of share awards.

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty

In the course of preparing the Company's financial statements, accounting for retirement benefit schemes under IAS 19 requires an assessment of the future benefits payable in accordance with actuarial assumptions. The discount rate and the mortality rates applied in the calculation of scheme liabilities are a key source of estimation uncertainty for the Company. Details of the accounting policies applied in respect of retirement benefit schemes are set out in note 26 of the Group consolidated financial statements.

In line with previous years, the Company continues to take the decision not to recognise an asset in relation to the surplus on the defined benefit pension scheme, regardless of value.

Notes to the company financial statements

Year ended 31 December 2023

1. Profit for the year

Bodycote plc has made use of the exemption from presenting a profit and loss account, in accordance with Section 408 of the Companies Act 2006.

Bodycote plc reported a profit for the financial year ended 31 December 2023 of £3.8m (2022: £10.6m).

The auditor's remuneration for audit and other services is disclosed in note 2 of the Group consolidated financial statements.

2. Employees

	2023 Number	2022 Number
Average monthly number of employees	**46**	48

	£m	**£m**
Their aggregate remuneration comprised:		
Wages and salaries	**10.3**	6.3
Social security costs	**1.1**	1.0
Pension costs	**0.5**	0.5
	11.9	7.8

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £0.7m (2022: £0.4m).

All Directors of the Group are remunerated through the Company and these costs are reflected in the financial statements of the Company. Disclosure of individual Directors' remuneration, share interests, share awards, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the tables in the Directors' report on remuneration on pages 79 to 91.

3. Intangible assets

	Software £m
Cost	
At 1 January 2023	45.5
Additions	8.6
Disposals	(0.6)
At 31 December 2023	**53.5**
Amortisation	
At 1 January 2023	18.4
Charge for the year	1.6
Disposals	(0.6)
At 31 December 2023	**19.4**
Net book value	
At 31 December 2023	**34.1**
At 31 December 2022	27.1

Included in software assets are ongoing development costs related to the Group's ERP solutions. £31.4m (2022: £22.9m) of these costs are related to assets that are not yet available for use and are therefore not amortised. As such solutions become available for use, they will be amortised according to Group policy.

Additions are for the ongoing ERP development which include £4.3m (2022: £4.3m) charged from other Group companies.

Notes to the company financial statements continued

For the year ended 31 December 2023

4. Right-of-use assets

	Buildings and vehicles £m
Cost	
At 1 January 2023	**2.3**
Additions	**1.4**
Disposals	**(2.3)**
At 31 December 2023	**1.4**
Depreciation	
At 1 January 2023	**2.2**
Charge for the year	**0.2**
Disposals	**(2.3)**
At 31 December 2023	**0.1**
Net book value	
At 31 December 2023	**1.3**
At 31 December 2022	**0.1**

	2023 £m	2022 £m
Lease liabilities		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**0.3**	0.1
One to five years	**1.0**	–
More than five years	**0.5**	–
Total undiscounted cash flows	**1.8**	0.1
Current	**0.2**	0.1
Non–current	**1.3**	–
Total lease liabilities	**1.5**	0.1

5. Investments in subsidiaries

	£m
Cost	
At 1 January 2023 and 31 December 2023	**395.5**
Provision for impairment	
At 1 January 2023 and 31 December 2023	**6.6**
Net book value	
At 1 January 2023 and 31 December 2023	**388.9**

The following subsidiaries in the UK have taken advantage of an exemption from audit under section 479A of the Companies Act 2006. As the ultimate parent, Bodycote plc has provided a statutory guarantee for any outstanding liabilities of these businesses. These subsidiaries have been included in the Group consolidated financial statements of Bodycote plc as at 31 December 2023.

Bodycote America Capital Limited
Bodycote America Finance Limited
Bodycote America Treasury Limited
Bodycote Finance Limited
Bodycote Finance UK Limited
Bodycote Heat Treatments Limited
Bodycote H.I.P. Limited
Bodycote HIP Germany Limited
Bodycote International Limited
Bodycote Investments
Bodycote Nominees No. 1 Limited
Bodycote Pension Trustees Limited
Bodycote Surface Technology Limited
Bodycote Thermal Processing Mexico Limited

A full list of directly and indirectly owned subsidiary undertakings can be found on page 155 and 156.

6. Trade and other receivables

	2023 £m	2022 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings[1]	**3.5**	2.1
Corporation tax	**0.5**	2.8
Other receivables and prepayments	**1.1**	1.9
	5.1	6.8
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings[1]	**5.8**	49.2
Other receivables	**0.4**	0.7
	6.2	49.9
	11.3	56.7

1 An assessment regarding the expected credit losses (ECL) of these amounts has been made and no allowance for ECL has been recognised on the basis that the loans do not exceed the borrower's liquid assets. The portion of the 'Amounts owed from subsidiary undertakings' balance that is expected to be settled within 12 months is classified as current. Loans owed from subsidiaries have a defined maturity date being predominantly in line with the Group's Revolving Credit Facility, however parties have the ability to repay earlier.

7. Trade and other payables

	2023 £m	2022 £m
Amounts falling due within one year:		
Trade payables	**0.3**	0.4
Amounts owed to subsidiary undertakings[1]	**0.2**	0.2
Other taxes and social security	**0.7**	0.2
Other payables	**4.9**	2.3
Accruals	**4.3**	4.2
	10.4	7.3
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings[1]	**6.5**	4.8
	6.5	4.8

1 The portion of the 'Amounts owed to subsidiary undertakings' balance that is expected to be settled within 12 months is classified as current. Loans owed to subsidiaries have a defined maturity date being predominantly in line with the Group's Revolving Credit Facility, however parties have the ability to repay earlier.

8. Deferred tax

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior year.

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2022	(0.5)	–	0.5	–
Charge to profit or loss	(1.0)	–	(0.3)	(1.3)
At 1 January 2023	(1.5)	–	0.2	(1.3)
Charge to profit or loss	(1.0)	–	–	(1.0)
At 31 December 2023	**(2.5)**	**–**	**0.2**	**(2.3)**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2023 £m	2022 £m
Net deferred tax liability	**(2.3)**	(1.3)

Notes to the company financial statements continued

For the year ended 31 December 2023

9. Share capital

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

	Number of shares	£m
At 1 January 2023	191,456,172	33.1
At 31 December 2023	**191,456,172**	**33.1**

Details of share awards in issue on the Company's share capital and share-based payments are set out in note 24 of the Group consolidated financial statements.

10. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £37.0m (2022: £74.4m). The likelihood of these guarantees being called is considered to be unlikely, therefore the estimated financial effect on the Company is £nil (2022: £nil) as no provision is required.

11. Pension commitments

The Company participates in a final salary defined benefit scheme in the UK, the details of which are disclosed in note 26 of the Group consolidated financial statements. This is a defined benefit plan which shares the risks between entities under common control. There is no contractual agreement or policy for charging the net benefit cost between entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. The net defined benefit costs are recognised as per the requirements of IAS 19 Employee Benefits.

The Company acknowledges that the recognition of the pension scheme surplus is an area of accounting judgement, which depends on the wording of the scheme rules and IFRIC 14. The pension surplus not recognised at 31 December 2023 was £4.9m (2022: £3.0m). Full disclosures concerning the scheme as required by IAS 19 are set out in note 26 of the Group consolidated financial statements and full disclosure concerning IFRIC 14 is set out in note 26 of the Group consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.5m (2022: £0.5m). As at 31 December 2023, contributions of £nil (2022: £nil) were due in respect of the current year had not been paid over to the scheme.

12. Related party transactions

Information on the retirement benefit schemes operated by the Company are set out in note 26 of the Group consolidated financial statements. The remuneration of the Directors is set out in note 25 of the Group consolidated financial statements and in the Directors' report on remuneration on pages 77 to 91. The Company has taken the exemption available under FRS 101 not to disclose transactions with wholly-owned subsidiary companies.

13. Post balance sheet event

On 22 January 2024, the Company announced its intention to launch a share repurchase programme of up to £60.0m. This will commence on 15 March 2024.

Five-year summary (unaudited)

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Revenue	**802.5**	743.6	615.8	598.0	719.7
Profit:					
Headline operating profit	**127.6**	112.2	94.8	75.3	134.9
Amortisation of acquired intangible assets	**(8.1)**	(9.3)	(10.3)	(9.8)	(4.6)
Acquisition costs	**(0.3)**	(0.9)	(0.7)	(2.1)	(1.7)
Operating profit prior to exceptional items	**119.2**	102.0	83.8	63.4	128.6
Exceptional items	**–**	–	–	(58.4)	–
Operating profit	**119.2**	102.0	83.8	5.0	128.6
Net finance charge	**(7.5)**	(6.7)	(6.3)	(6.5)	(4.7)
Profit/(loss) before taxation	**111.7**	95.3	77.5	(1.5)	123.9
Taxation	**(24.9)**	(21.0)	(17.5)	2.3	(29.9)
Profit after taxation	**86.8**	74.3	60.0	0.8	94.0
Non-controlling interests	**(1.2)**	(0.6)	(0.5)	(0.4)	(0.2)
Profit attributable to the equity holders of the parent	**85.6**	73.7	59.5	0.4	93.8
Headline earnings per share (pence)	**48.4**	42.7	35.8	27.8	52.1
Full year dividend per share (pence)	**22.7**	21.3	20.0	19.4	19.3
Assets employed					
Intangible assets	**332.7**	344.7	322.0	323.5	212.4
Property, plant and equipment	**504.9**	516.3	489.3	522.6	534.5
Other assets and liabilities	**6.4**	20.4	(9.5)	(66.6)	17.4
	844.0	881.4	801.8	779.5	764.3
Financed by					
Share capital	**33.1**	33.1	33.1	33.1	33.1
Reserves	**757.7**	747.8	651.6	647.4	671.9
Shareholders' funds	**790.8**	780.9	684.7	680.5	705.0
Non-controlling interests	**1.5**	1.1	0.7	0.9	0.8
Lease liabilities	**64.3**	66.0	64.5	75.6	79.4
Net (cash)/debt	**(12.6)**	33.4	51.9	22.5	(20.9)
Capital employed	**844.0**	881.4	801.8	779.5	764.3
Net assets per share (pence)	**413.0**	407.9	357.6	355.4	368.2
Return on capital employed (%):					
Headline operating profit divided by the average of opening and closing capital employed	**14.8**	13.3	12.0	9.8	17.7

Alternative performance measures (APMs) – unaudited

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

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

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

Organic revenue

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

	2023 £m	2022 £m
Total revenue	**802.5**	743.6
Less adjustments for revenue from acquisitions completed in the current or prior year	**–**	(8.6)
Total organic revenue	**802.5**	735.0

Revenue excluding surcharges

	2023 £m	2022 £m
Total revenue	**802.5**	743.6
Less energy surcharges	**(66.8)**	(46.6)
Total revenue excluding surcharges	**735.7**	697.0

Headline operating profit

	2023 £m	2022 £m
Operating profit	**119.2**	102.0
Add back:		
Amortisation of acquired intangibles	**8.1**	9.3
Acquisition costs	**0.3**	0.9
Exceptional items	**–**	–
Headline operating profit	**127.6**	112.2

Revenue and headline operating profit at constant exchange rates

Reconciled to revenue and headline operating profit in the table below:

	Year to 31 December 2023			
	ADE £m	**AGI £m**	**Central cost and eliminations £m**	**Consolidated £m**
Revenue	**355.5**	**447.0**	**–**	**802.5**
Constant exchange rates adjustment	**1.7**	**1.3**	**–**	**3.0**
Revenue at constant currency	**357.2**	**448.3**	**–**	**805.5**
Headline operating profit	**69.5**	**79.3**	**(21.2)**	**127.6**
Constant exchange rates adjustment	**0.8**	**2.0**	**0.5**	**3.3**
Headline operating profit at constant currency	**70.3**	**81.3**	**(20.7)**	**130.9**

Headline operating margin

	2023 £m	2022 £m
Headline operating profit	**127.6**	112.2
Revenue	**802.5**	743.6
Headline operating margin	**15.9%**	15.1%

Headline operating margin excluding surcharge revenue

	2023 £m	2022 £m
Headline operating profit	**127.6**	112.2
Revenue excluding surcharges	**735.7**	697.0
Headline operating margin excluding surcharge revenue	**17.3%**	16.1%

Headline profit before taxation

	2023 £m	2022 £m
Profit before taxation	**111.7**	95.3
Add back:		
Amortisation of acquired intangibles	**8.1**	9.3
Acquisition costs	**0.3**	0.9
Exceptional items	**–**	–
Headline profit before taxation	**120.1**	105.5

EBITDA and headline EBITDA (earnings before interest, taxation, depreciation and amortisation)

	2023 £m	2022 £m
Operating profit	**119.2**	102.0
Depreciation and amortisation	**82.1**	84.3
Impairment reversal of property, plant and equipment and other assets – recognised in exceptional items	**–**	(0.1)
Impairment of property, plant and equipment and other assets – recognised in operating profit	**0.9**	4.8
Profit on disposal of property, plant and equipment –recognised in operating profit	**(3.4)**	(1.7)
Profit on disposal of right-of-use assets – recognised in operating profit	**(0.2)**	(0.1)
Loss on disposal of property, plant and equipment – recognised in exceptional items	**–**	0.1
Share-based payments	**5.1**	1.7
EBITDA	**203.7**	191.0
Acquisition costs	**0.3**	0.9
Exceptional items, excluding impairments	**–**	(0.1)
Share-based payments	**(5.1)**	(1.7)
Headline EBITDA	**198.9**	190.1
Headline EBITDA Margin	**24.8%**	25.6%

Headline operating cash flow

	2023 £m	2022 £m
Headline EBITDA	**198.9**	190.1
Less:		
Net maintenance capital expenditure	**(57.7)**	(52.2)
Net working capital movement	**(1.7)**	(25.3)
Headline operating cash flow	**139.5**	112.6

Free cash flow

	2023 £m	2022 £m
Headline operating cash flow	**139.5**	112.6
Less:		
Restructuring cash flows	**(1.6)**	(7.4)
Net income taxes paid	**(9.0)**	(15.4)
Net Interest paid	**(6.4)**	(5.8)
Free cash flow	**122.5**	84.0

Alternative performance measures (APMs) – unaudited

continued

Headline operating cash conversion	2023 £m	2022 £m
Headline operating cash flow	**139.5**	112.6
Headline operating profit	**127.6**	112.2
Headline operating cash conversion	**109.3%**	100.4%

Free cash flow conversion	2023 £m	2022 £m
Free cash flow	**122.5**	84.0
Headline operating profit	**127.6**	112.2
Free cash flow conversion	**96.0%**	74.9%

Headline tax charge	2023 £m	2022 £m
Tax charge	**24.9**	21.0
Tax on amortisation of acquired intangibles	**2.0**	2.3
Tax charge on exceptional items and acquisition costs	**0.1**	0.2
Headline tax charge	**27.0**	23.5

Headline tax rate	2023 £m	2022 £m
Headline tax charge	**27.0**	23.5
Headline profit before taxation	**120.1**	105.5
Headline tax rate	**22.5%**	22.3%

Headline earnings per share

A detailed reconciliation is provided in note 8 of the consolidated financial statements.

Net debt and net cash/(debt) plus lease liabilities	2023 £m	2022 £m
Cash and bank balances	**45.2**	37.2
Bank overdrafts (included in borrowings)	**(0.5)**	(1.0)
Bank loans (included in borrowings)	**(32.1)**	(69.6)
Net cash/(debt) excluding lease liabilities	**12.6**	(33.4)
Lease liabilities	**(64.3)**	(66.0)
Net debt	**(51.7)**	(99.4)

Return on capital employed (%)	Year to 31 December 2023			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Headline operating profit	**69.5**	**79.3**	**(21.2)**	**127.6**
Average capital employed[1]	**448.1**	**446.3**	**(31.6)**	**862.8**
Return on capital employed (%)	**15.5%**	**17.8%**	**n/a**	**14.8%**

	Year to 31 December 2022			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Headline operating profit	50.8	80.8	(19.4)	112.2
Average capital employed[1]	426.4	442.8	(27.6)	841.6
Return on capital employed (%)	11.9%	18.2%	n/a	13.3%

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

Subsidiary undertakings

Incorporated in the UK

Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF
Bodycote America Capital Limited[6]
Bodycote America Finance Limited[6]
Bodycote America Treasury Limited[6]
Bodycote Developments Limited[2,4]
Bodycote Finance Limited[6]
Bodycote Finance UK Limited[6]
Bodycote Heat Treatments Limited[1]
Bodycote H.I.P. Limited[1]
Bodycote HIP Germany Limited[3]
Bodycote International Limited[3]
Bodycote Investments[6]
Bodycote K-Tech Limited[2]
Bodycote Nominees No. 1 Limited[3]
Bodycote Nominees No. 2 Limited[2]
Bodycote Pension Trustees Limited[5]
Bodycote Processing (Skelmersdale) Limited[2,4]
Bodycote Surface Technology Limited[1]
Bodycote Thermal Processing Limited[2]
Bodycote Thermal Processing Mexico Limited[1]
Expert Heat Treatments Limited[2,4]
Taylor & Hartley Fabrics Limited[2]

Incorporated in Belgium

Font Saint Landry 11, 1120 Brussels, Belgium
Bodycote Belgium SA[1]

Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium
Bodycote Hot Isostatic Pressing NV[1]

Incorporated in Canada

4211 Mainway, Burlington, Ontario, L7L 5N9, Canada
Bodycote Heat Treatment Canada, Inc.[1]
Bodycote Thermal Processing Canada, Inc[1]

1100-1959 ST Upper Water Halifax Nova Scotia B3J 3N2, Canada
Bodycote Surface Technology Canada Ltd.[1]

30 de l'Aeroport Boulevard, Bromont Québec JSL 1S6, Canada
Bodycote Surface Technology Canada Property, Inc.[4]

Incorporated in China

No. 68 Ningbo East Road, Taicang Economic Development Area, Taicang City, Jiangsu, China
Bodycote Heat Treatments Technology (Taicang) Co., Limited[1]

Building 4 in International Innovation Park Phase Two, No.1188 Feng Hua Road, Jiaxing City, Zhejiang Province, China
Bodycote (Jiaxing) Heat Treat Co., Ltd.[1]

2012 Kehang Road, High Tech District, Jinan City, Shandong, China
Bodycote (Jinan) Heat Treatments Technology Co., Ltd.[1]

No.12 Building, No. 78, Gu Cheng Zhong Road, Yu Shan Town, Kunshan City, Jiangsu Province, China
Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.[1]

No.B2-A, Wuxi National Hi-New Tech Industrial Development Z, Wuxi City, Jiangsu Province, 214028, China
Bodycote (Wuxi) Technology Co., Ltd.[1]

Incorporated in Czech Republic

Liberec 30, Tanvaldska 345, PSC, 46311, Czech Republic
Bodycote HT s.r.o.[1]

Rohanske nabrezi 671/15, Karlin, 186 00, Praha 8, Czech Republic
Bodycote SSC s.r.o.[6]

Subsidiary undertakings continued

Incorporated in France

Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Bourgogne SAS[1]
Bodycote France Holdings SA[3]
Bodycote Haute-Savoie SAS[2]
Bodycote Lyon SNC[6]
Bodycote Metz-Tessy SAS[1]
Bodycote SAS[1]
Bodycote Sud-Ouest SAS[1]
HITEC SAS[2]
Nitruvid SAS[1]

Incorporated in Germany

Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Deutschland GmbH[6]
Bodycote European Holdings GmbH[3]
Bodycote Hirzenhain GmbH[1]
Bodycote Schmerbach GmbH[1]
Bodycote Specialist Technologies GmbH[1]
Bodycote Specialist Technologies Deutschland GmbH[1]
Bodycote Wärmebehandlung GmbH[1]

Incorporated in Ireland

12 Merrion Square North, Dublin 2, Ireland
Bodycote Ireland Finance DAC[6]

Incorporated in Jersey

50 La Colomberie, St Helier, JE2 4QB, Jersey
Bodycote Jersey Holdings Limited[3]

Incorporated in Mexico

Avenida Conquistadores, Exterior No.: 105 Interior No.: PA 07, Calle Rio Lys and Calle Rios Mosa, Col. Mirasierra, San Pedro Garza Garcia, Nuevo León 66240, México
Bodycote de SLP, S. de R.L. de C.V.[1]

Carretera Monterrey-Saltillo #3279 B, Privada de Santa Catarina, Nuevo León 66367, México
Bodycote Testing de Mexico, S. de R.L. de C.V.[2]

Avenida Olmo, No. 100, Parque Industrial y de Negocios Las Colinas, Silao, Guanajuato 36270, México
Bodycote Thermal Processing de Mexico, S. de R.L. de C.V.[1]

Avenida Industriales del Poniente Km. 19, Colonia Centro, Santa Catarina, Nuevo León 66350, México
Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.[6]

Incorporated in Sweden

Box 209, 735 23, Surahammar, Sweden
Bodycote Hot Isostatic Pressing AB[1]

Box 124, 424 23, Angered, Sweden
Bodycote Sweden AB[3]
Bodycote Thermotreat AB[2]
Bodycote Värmebehandling AB[1]
Bodycote Ytbehandling AB[1]

Incorporated in Switzerland

chemin du Pavillon 2, 1218 Le Grand-Saconnex, Switzerland
Bodycote (Suisse) SA[6]
BDC Enterprises SA[3,6]

Jurastrasse 59, 2503, Biel, Canton de Berne, Switzerland
HTM Biel GmbH[1]

Incorporated in USA

12750 Merit Drive, Suite 1400, Dallas, TX 75251, USA
Bodycote Americas, Inc.[3] – merged into Bodycote USA, Inc. 31.12.2023
Bodycote IMT, Inc.[1]
Bodycote K-Tech, Inc.[1]
Bodycote Syracuse Heat Treating Corporation[1]
Bodycote Thermal Processing, Inc.[1]
Bodycote USA, Inc.[3]

8118 Corporate Way Suite 201, Mason OH 45040, USA
Bodycote Surface Technology Property LLC[4]
Bodycote Surface Technology Mexico LLC[1]
Bodycote Surface Technology, Inc.[1]
Bodycote Surface Technology Group, Inc.[6]

1237 Knoxville Hwy, Wartburg TN 37887, USA
Bodycote Surface Technology Wartburg, Inc.[1]

Incorporated in other overseas countries

Boehlerdurplatz 1, 8605 Kapfenberg, Austria
Bodycote Austria GmbH[1]

Groethofstraat 27, 5916PA Venlo, Netherlands
Bodycote Hardingscentrum BV[1]
Bodycote Hardingscentrum No.2 BV[3]

ÁTI-Sziget Ipari Park, 23. Épület, 2310 Szigetszentmiklós, Hungary
Bodycote Hungary Hőkezelő KFT[1]

Kemalpasa OSB, Izmir Kemalpasa Asfalti No:17/1, 35730 Kemalpasa-IZMIR, Turkey
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)[1]

Gesällvägen 7, 01730 Vantaa, Finland
Bodycote Lämpökäsittely Oy[1]

Wilgowa 65D, Czestochowa, 42-271, Poland
Bodycote Polska sp z.o.o.[1]

Im alten Riet 123, 9494 Schaan, Liechtenstein
Bodycote Rheintal Wärmebehandlung AG[1]

Matuškova 48, Vlkanová, Banksá Bystrica, 976 31, Slovakia
Bodycote Slovakia s.r.o.[1]

Via Moie 28, 25050, Rodengo Saiano, Italy
Bodycote Trattamenti Termici SpA[1]

Brasov, str. Zizinului nr. 119, cod 500407, Romania
Bodycote Tratamente Termice SRL[1]

Industribuen 16-18, 5592, Ejby, Denmark
Bodycote Varmebehandling A/S[1]

Incorporated in USA

13753 Otterson Court, Livonia, MI 48150, USA
Thixomat Technologies, LLC (13.9% Investment)

Classifications Key

1. Thermal processing company
2. Dormant
3. Holding company
4. Property holding company
5. Trustee
6. Provision of services to Group companies

Except where stated, these companies are wholly owned subsidiaries and have only one class of issued shares.

It is agreed that the five German subsidiaries Bodycote Hirzenhain GmbH, Bodycote Schmerbach GmbH, Bodycote Specialist Technologies Deutschland GmbH, Bodycote Specialist Technologies GmbH and Bodycote Wärmebehandlung GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2023, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code.

The financial data of the above German companies for 2023 will be included in the consolidated annual accounts of Bodycote European Holdings GmbH.

Shareholder enquiries

Registrar

The Company's Registrar is Equiniti Limited. Equiniti provide a range of services to shareholders. Extensive information, including many answers to frequently answered questions can be found online at www.shareview.co.uk. Equiniti's registered address is: Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Use the QR code to register for FREE at www.shareview.co.uk

Share dealing service

For information on the share dealing service offered by Equiniti Limited, telephone 0345 603 7037 (+44 121 415 7560 if calling from outside the UK). Lines open 8.00am to 4.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.
Please either telephone Equiniti or check online at www.shareview.co.uk for up-to-date commission rates.

Dividend reinvestment plan (DRIP)

Equiniti's DRIP offers a convenient way for shareholders to build up their shareholding by using dividend payments to purchase additional shares. The DRIP is provided by Equiniti Financial Services Limited, part of Equiniti Group, which is authorised and regulated by the Financial Conduct Authority. 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.

For more information and an application pack, please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK).
Lines open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Alternatively go to shareview.co.uk/info/drip.

Overseas shareholders

Equiniti provides a service to overseas shareholders that will convert sterling dividends into local currency at a competitive rate.
Dividend payments will then be made directly into your local bank account. For more information log on to www.shareview.co.uk/info/ops for answers to any queries you may have, as well as the full terms and conditions of the service. Alternatively, please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 08.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.

Duplicate share register accounts

If you are receiving more than one copy of our annual 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 your accounts into one single entry. Please contact Equiniti, who will be pleased to carry out your instructions.

Shareholder warning

Shareholders should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports on the Company. Fraudsters use persuasive and high-pressure tactics to lure investors into scams and they may offer to sell shares that often turn out to be worthless, overpriced or even non-existent. Whilst high returns are promised, those who invest usually end up losing their money.

Please keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation and make a record of any other information they give you, e.g. telephone number, address, and ask for their 'firm reference number' (FRN)
- Check that they are properly authorised by the FCA before getting involved. You can check the FCA register at https://register.fca.org.uk or call +44 800 111 6768
- Report approaches to the FCA – a list of unauthorised firms who are targeting, or have targeted, UK investors is maintained. Reporting such organisations means the list can be kept up to date and appropriate action be considered
- Inform Equiniti Limited, our Registrars. They are not able to investigate such incidents themselves, but will record the details and pass them on to the Company and liaise with the FCA on your behalf
- Consider that if you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme If you suspect you have been approached by fraudsters, please contact the FCA using the share fraud reporting form at fca.org.uk/scams

You can also call the FCA Helpline on: 0800 111 6768 (UK freephone) or 0300 500 8082 (UK), or +44 207 066 1000 (from outside UK).

If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040 or online at actionfraud.police.uk.

Shareholder analysis

Analysis of share register as at 29 February 2024:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	631	41.4	255,702	0.1
1,001 to 10,000	542	35.6	1,744,528	0.9
10,001 to 100,000	199	13.1	7,005,686	3.7
100,001 to 500,000	79	5.2	17,436,818	9.1
500,001 and over	72	4.7	165,013,438	86.2
	1,523	100.0	191,456,172	100.0

Type of shareholders	% of shareholders	% of total shares
Directors' interests	0.3	0.3
Major institutional and corporate holdings	31.4	98.6
Other shareholdings	68.3	1.1
	100.0	100.0

As at 26 February 2024 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules:

Name of shareholders	Number of shares	%
Martin Currie Investment Management Ltd.	14,086,370	7.4
Goldman Sachs Advisors BV	12,100,000	6.3
Fidelity Management & Research Company LLC	10,201,401	5.3
Artemis Investment Management	9,549,730	5.0
The Vanguard Group, Inc.	9,057,851	4.7
Baillie Gifford & Co.	7,298,305	3.8
Blackrock Investment Management (UK) Ltd.	5,820,193	3.0

Company information

Advisers

Auditors
PricewaterhouseCoopers LLP

Principal bankers
HSBC UK Bank plc, National Westminster Bank plc, Handelsbanken plc, UniCredit Bank AG, Wells Fargo Bank, N.A. and KBC Bank N.V.

Brokers
HSBC Bank plc and Jefferies International Limited

Solicitors
Herbert Smith Freehills LLP and DLA Piper UK LLP

Financial calendar

Annual General Meeting	30 May 2024
Final dividend for 2023	6 June 2024
Interim results for 2024	July 2024
Interim dividend for 2024	November 2024
Results for 2024	March 2025

www.bodycote.com

For the online version of this report go to
www.bodycote.com/investors

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