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# ÅRSREDOVISNING

**2022-01-01--2022-12-31**

för

**Bodycote Värmebehandling AB**
**556077-8028**

**Årsredovisningen omfattar:** **Sida**


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FASTSTÄLLELSEINTYG

Undertecknad styrelseledamot intygar härmed, dels att denna
kopia av årsredovisningen stämmer överens med originalet, dels att resultaträkningen och balansräkningen för företaget har fastställts på årsstämma den 2023-06-30.
Årsstämman beslutade att godkänna styrelsens förslag till resultatdisposition.

Göteborg den 2023-06-30

Mikael Fällström

20230707275Z2

**Bodycote Värmebehandling AB**
556077-8028

# ÅRSREDOVISNING FÖR BODYCOTE VÄRMEBEHANDLING AB

Styrelsen för Bodycote Värmebehandling AB avger härmed årsredovisning för räkenskapsåret 2022-01-01--2022-12-31.

# FÖRVALTNINGSBERÄTTELSE

## Verksamhetens art och inriktning

Bodycote Värmebehandling AB:s verksamhet består av värmebehandling av stål och metaller och kunderna finns främst inom svensk verkstadsindustri. Totalt har bolaget sex verkstäder.

## Ägarförhållanden

Bodycote Värmebehandling AB med säte i Göteborg är ett helägt dotterbolag till Bodycote International Ltd, 01036959 med säte i Macclesfield, England och i sin tur är dotterbolag till Bodycote plc, Macclesfield med säte i Macclesfield, England. Bodycote Värmebehandling AB är sedan november 2013 moderbolag till Bodycote Ytbehandling. Någon koncernredovisning upprättas ej med stöd av ÅRL 7:2. Koncernredovisning upprättas av Bodycote PLC.

## Väsentliga händelser under räkenskapsåret

COVID-19 pandemin klingade av under första halvåret 2022. Den begynnande energikrisen förstärktes betydligt av Ukraina-Ryssland konflikten vilket starkt har påverkat energi- och insatsvarupriser under året. Bodycote-koncernen har anpassat sin pris strategi för att parera de höga och fluktuerande energi/insatsvaru priserna.

Försäljningen för Bodycote Värmebehandling AB har påverkats av energi- och gastillägg med i huvudsak oförändrade volymer i jämförelse med föregående år.

## Utveckling av verksamhet, ställning och resultat

Bolagets ekonomiska utveckling i sammandrag.

| (Mkr) | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Nettoomsättning | 274 | 246 | 182 | 222 | 243 |
| Resultat e. finansiella poster | 72 | 54 | -10 | 91 | 52 |
| Balansomslutning | 375 | 333 | 369 | 379 | 456 |
| Soliditet [1] | 66,2% | 55,7% | 41,2% | 42,2% | 81,5% |
| Medelantal anställda | 138 | 126 | 131 | 149 | 139 |

[1] Justerat eget kapital / Balansomslutning. Med justerat eget kapital avses eget kapital + obeskattade reserver med avdrag för uppskjuten skatteskuld.

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## Väsentliga risker och osäkerhetsfaktorer

Bolaget har identifierat nedanstående väsentliga risker och osäkerhetsfaktorer och utformat strategier för att bemöta dem:

| Väsentlig risk | Osäkerhet och påverkan | Bemötande |
|---|---|---|
| **Marknadsrisk** innebär risken för plötsliga och oväntade förändringar i den marknad Bodycote verkar i. | Verksamhetens karaktär innebär en hög andel kortsiktiga fasta kostnader och att drastiskt minskad omsättning får stor lönsamhetspåverkan. | Bolaget ingår i en global organisation vilket innebär diversifierade risker och flexibilitet i tillgängliga resurser. Viss kortsiktig flexibilitet finns i den del av kostnadsbasen som rör personalkostnader. |
| **Kundrisk** innebär beroende av långsiktiga och goda relationer med nyckelkunder vars volymer i sin tur är beroende av faktorer bortom vår kontroll. | Förlust av nyckelkunder, eller stora volymtapp till följd av nyckelkunders egna försäljningsnedgångar kan leda till stor negativ lönsamhetspåverkan. | Bolaget har en diversifierad kundportfölj, där de tio största kunderna andel av omsättningen vägs upp av en större andel försäljning till mindre kunder. Vidare möts risken genom ett kontinuerligt fokus på kundnöjdhet och aktivt KAM-arbete. |
| **Konkurrensrisk** innebär risk att förlora enskilda affärer och marknadssegment till konkurrenter. | Minskad marknadsandel innebär tappad omsättning och lönsamhet | Kontinuerligt fokus på kundnöjdhet, fortsatt utveckling av serviceutbudet. |
| **Säkerhets- och hälsorisk (SHE)** förenade med karaktären av den fysiska verksamhet som bedrivs. | Brister i säkerhetsrutiner och arbetsmiljö riskerar medarbetarnas hälsa och välbefinnande, verksamhetens effektivitet och det allmänna förtroendet; samt exponering för legala sanktioner. | Bodycote verkar under globala koncerngemensamma SHE-policyer vars efterlevnad kontrolleras genom återkommande revisioner och har en koncernövergripande SHE-kommitté som sammanträder regelbundet. Verksamheten är ISO 14001-certifierad. |
| **Miljörisk** innebär faktisk eller potentiell miljönedsmutsning till följd av den verksamhet som bedrivs. | Negativ miljöpåverkan genom oaktsamhet eller undlåtenhet innebär juridiska och finansiella risker, samt skadar det allmänna förtroendet. | Bolaget har implementerat rutiner i enlighet med de krav som ställs genom ISO 14001 och arbetar systematisk med att minimera risker för miljöpåverkan. För de verksamheter där konstaterad återställandeskyldighet finns har avsatts ekonomiska reserver för detta ändamål. |
| **Kvalitetsrisk** innebär att Bodcyotes varumärke är beroende av att vi uppfyller våra åtaganden med fullgod kvalitet och i rätt tid. | Kvalitets- och leveransbrister kan innebära stor skada för kundförtroendet, samt juridiska och finansiella risker. | Bodycote har implementerade kvalitetssystem och personal som uteslutande arbetar med kvalitetsuppföljning och leveranssäkerhet. Alla lokala verksamheter genomgår regelbundet interna och externa kvalitetsrevisioner. |
| **Verksamhetsrisk** innebär affärskritiskt beroende av funktionella verkstäder och utrustning. | Teoretisk risk att produktionen störs eller slås ut av brand, sabotage, elnätavbrott eller annan faktor. | Verksamheten bedrivs genom ett nätverk av verkstäder med överlappande teknologi. Samtliga verkstäder har en Business Continuity plan som utvärderas och uppdateras årligen. Vidare har koncernen ett globalt försäkringsskydd. |
| **IT-Risk** innebär ett kritiskt beroende av IT-system för att följa och styra verksamheten. | Kritiska avbrott i IT-system från externa angrepp skulle innebära risk för leveranssäkerhet och förlust av vitala data. | Bodycote har en globalt centraliserad IT-organisation med fasta processer för IT-säkerhet, planer för back-up och data recovery, samt förebyggande mjukvara mot externa angrepp. |

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## Förväntad framtida utveckling

Verksamheten förväntas fortlöpa likt 2022 under 2023. Med fortsatt kontinuerlig anpassning av vårt serviceutbud och vår kostnadsbas utefter förändringar i lokala marknadsförhållanden. Bolaget har ett väl utvecklad hållbarhetsarbete vilket kommer att intensifieras framåt. Långsiktigt strategiskt fokus är alltjämt långsiktig lönsamhetstillväxt genom en positiv marginalutveckling.

Ukrainakonfliktens fortsatta påverkan på den framtida utvecklingen är svår att förutse. Bolaget bemöter detta genom att aktivt följa utvecklingen och anpassa rörliga kostnader och organisationsstruktur i den utsträckning som bedöms lämplig.

## Icke-finansiella upplysningar

Bodycote Värmebehandling AB arbetar löpande med personalens kompetensutveckling för att säkerställa företagets goda utveckling. Bolaget har under året fortsatt sitt arbete med SHE (Safety, Health and Environment) för att minimera risken för skador och olyckor relaterade till verksamheten. Bodycotes kärnvärden baseras på ärlighet och öppenhet, respekt och ansvarstagande samt skapande av värde. Dessa ledord präglar alla aspekter i vår verksamhet både internt och externt.

## Tillstånds- eller anmälningspliktig verksamhet enligt miljöbalken

Huvuddelen av Bodycote Värmebehandling AB:s verksamheter är enligt förordningen för miljöfarlig verksamhet och hälsoskydd (SFS 1998:899) klassade som C-verksamheter. Detta innebär att en enskild anläggning är anmälningspliktig (9kap. 6 paragrafen MB). Bodycote Värmebehandling AB:s huvudsakliga miljöpåverkan består av den energi som förbrukas i våra processer. Övrig miljöpåverkan sker främst genom förbränning av processgaser. Samtliga enheter inom bolaget är sedan 2007 certifierade i enlighet med ISO 14 001:2015.

Den anmälningspliktiga/tillståndspliktiga verksamheten motsvarar 95 % av bolagets nettoomsättning.

## Förslag till vinstdisposition (kronor)

| | |
|---|---|
| Till årsstämmans förfogande står följande vinstmedel | |
| Balanserat resultat | 129 989 670 |
| Årets resultat | 64 180 680 |
| | **194 170 350** |
| | |
| Styrelsen föreslår att | |
| till aktieägarna utdelas | 185 000 000 |
| i ny räkning balanseras | 9 170 350 |
| | **194 170 350** |

## Styrelsens yttrande över den föreslagna vinstutdelningen

Styrelsens uppfattning är att föreslagen vinstutdelningen är försvarlig med hänsyn tagen till koncernens och moderbolagets finansiella ställning och fortsatta handlingsfrihet med beaktande av de krav som verksmahetens art, omfattning, risker och framtida expansionsplaner ställer på bolagets egna kapital och likviditet. Den förelsagna utdelningen anses vara försvarlig med hänsyn till vad som anges i 17kap 3§ andra och tredje stycket i aktiebolagslagen.

**Bodycote Värmebehandling AB**
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# RESULTATRÄKNING
(Tkr)

| | Not | 2022-01-01<br>2022-12-31 | 2021-01-01<br>2021-12-31 |
|---|---|---|---|
| **Rörelsens intäkter** | | | |
| Nettoomsättning | 4 | 274 049 | 245 537 |
| Övriga rörelseintäkter | | 1 414 | 5 535 |
| | | **275 463** | **251 072** |
| **Rörelsens kostnader** | | | |
| Råvaror och förnödenheter | | -56 159 | -33 025 |
| Övriga externa kostnader | 5,6, 19 | -59 702 | -55 617 |
| Personalkostnader | 7 | -97 060 | -91 725 |
| Avskrivningar av immateriella & materiella anläggningstillgångar | 10,11,12, 13 | -36 513 | -35 357 |
| **Rörelseresultat** | | **26 029** | **35 348** |
| **Resultat från finansiella investeringar** | | | |
| Resultat från andelar i dotterbolag | 15 | 46 300 | 21 058 |
| Ränteintäkter och kostnader koncernföretag | | 67 | -2 151 |
| Räntekostnader och liknande kostnader | | -9 | -358 |
| **Resultat efter finansiella poster** | | **72 387** | **53 896** |
| **Bokslutsdispositioner** | 8 | 960 | **2 007** |
| **Resultat före skatt** | | **73 347** | **55 903** |
| Skatt på årets resultat | 9 | -9 166 | -11 193 |
| **ÅRETS RESULTAT** | | **64 181** | **44 710** |

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# BALANSRÄKNING

(Tkr)

| | Not | 2022-12-31 | 2021-12-31 |
|---|---|---|---|
| **TILLGÅNGAR** | | | |
| **Anläggningstillgångar** | | | |
| **Immateriella anläggningstillgångar** | | | |
| Goodwill | 10 | 23 692 | 39 486 |
| | | **23 692** | **39 486** |
| **Materiella anläggningstillgångar** | | | |
| Byggnader och mark | 11 | 32 544 | 34 244 |
| Maskiner och andra tekniska anläggningar | 12 | 97 672 | 94 278 |
| Inventarier, verktyg och installationer | 13 | 860 | 454 |
| Pågående nyanläggningar och förskott avseende materiella anläggningstillgångar | 14 | 8 747 | 10 700 |
| | | **139 823** | **139 676** |
| **Finansiella anläggningstillgångar** | | | |
| Andelar i koncernföretag | 15 | 92 803 | 92 803 |
| Uppskjuten skattefordran | 16 | 1 130 | 949 |
| | | **93 933** | **93 751** |
| **Summa anläggningstillgångar** | | **257 448** | **272 914** |
| **Omsättningstillgångar** | | | |
| **Varulager m m** | | | |
| Råvaror och förnödenheter | | 7 653 | 6 148 |
| | | **7 653** | **6 148** |
| **Kortfristiga fordringar** | | | |
| Kundfordringar | | 38 693 | 32 678 |
| Fordringar hos koncernföretag | | 61 524 | 11 680 |
| Aktuella skattefordringar | | 3 126 | 0 |
| Övriga fordringar | | 2 549 | 4 672 |
| Förutbetalda kostnader och upplupna intäkter | 17 | 4 357 | 4 589 |
| | | **110 249** | **53 620** |
| **Summa omsättningstillgångar** | | **117 902** | **59 768** |
| **SUMMA TILLGÅNGAR** | | **375 350** | **332 682** |

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# BALANSRÄKNING

| | Not | 2022-12-31 | 2021-12-31 |
|---|---|---|---|
| **EGET KAPITAL OCH SKULDER** | | | |
| **Eget kapital** | | | |
| ***Bundet eget kapital*** | | | |
| Aktiekapital (2500 aktier) | | 2 500 | 2 500 |
| Reservfond | | 6 033 | 6 033 |
| | | **8 533** | **8 533** |
| ***Fritt eget kapital*** | | | |
| Balanserad vinst eller förlust | | 129 990 | 85 306 |
| Årets resultat | | 64 181 | 44 710 |
| | | **194 171** | **130 016** |
| **Summa eget kapital** | | **202 704** | **138 549** |
| **Obeskattade reserver** | 18 | **57 859** | **58 819** |
| **Avsättningar** | | | |
| Övriga avsättningar | 19 | 2 689 | 2 706 |
| | | **2 689** | **2 706** |
| **Kortfristiga skulder** | | | |
| Leverantörsskulder | | 13 042 | 11 761 |
| Skulder till koncernföretag | | 64 792 | 90 941 |
| Aktuella skatteskulder | | 0 | 290 |
| Övriga kortfristiga skulder | | 12 562 | 6 997 |
| Upplupna kostnader och förutbetalda intäkter | 20 | 21 702 | 22 618 |
| | | **112 098** | **132 607** |
| **SUMMA EGET KAPITAL OCH SKULDER** | | **375 350** | **332 682** |

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**Bodycote Värmebehandling AB**
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# RAPPORT ÖVER FÖRÄNDRING I EGET KAPITAL

(Tkr)

| | Not | *Bundet eget kapital* Aktie-kapital | Reserv-fond | *Fritt eget kapital* Balanserad vinst eller förlust | Årets resultat | **Summa eget kapital** |
|---|---|---|---|---|---|---|
| **Ingående balans per 1 januari 2021** | | **2 500** | **6 033** | **101 145** | **5 538** | **115 217** |
| Disposition av föregående års resultat | | | | 5 538 | -5 538 | 0 |
| Årets resultat | | | | | 44 710 | 44 710 |
| Förändringar i redovisade värden på tillgångar och skulder: | | | | | | |
| Fusion | | | | -21 378 | | -21 378 |
| **Utgående balans per 31 december 2021** | | **2 500** | **6 033** | **85 306** | **44 710** | **138 549** |

Aktiekapital 2 500 aktier á kvotvärde 1000 kronor.

| | Not | *Bundet eget kapital* Aktie-kapital | Reserv-fond | *Fritt eget kapital* Balanserad vinst eller förlust | Årets resultat | **Summa eget kapital** |
|---|---|---|---|---|---|---|
| **Ingående balans per 1 januari 2022** | | **2 500** | **6 033** | **85 306** | **44 710** | **138 549** |
| Disposition av föregående års resultat | | | | 44 710 | -44 710 | 0 |
| Årets resultat | | | | | 64 181 | 64 181 |
| Förändringar i redovisade värden på tillgångar och skulder: | | | | | | |
| Justering föregående år | | | | -26 | | -26 |
| **Utgående balans per 31 december 2022** | | **2 500** | **6 033** | **129 990** | **64 181** | **202 704** |

Aktiekapital 2 500 aktier á kvotvärde 1000 kronor.

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# KASSAFLÖDESANALYS

| (Tkr) | Not | 2022-01-01<br>2022-12-31 | 2021-01-01<br>2021-12-31 |
|---|---|---|---|
| **Den löpande verksamheten** | | | |
| Rörelseresultat efter finansiella poster | | 72 387 | 35 348 |
| Justeringar för poster som inte ingår i kassaflödet: | | | |
| Avskrivningar | | 36 513 | 35 357 |
| Förändring avsättningar | | -17 | -885 |
| Erhållen ränta | | 67 | 23 |
| Erlagd ränta | | -9 | -2 533 |
| Betald inkomstskatt | | -12 583 | -5 525 |
| Övriga poster | | 0 | 0 |
| **Kassaflöde från den löpande verksamheten före förändringar av rörelsekapital** | | **96 359** | **61 786** |
| **Kassaflöde från förändringar i rörelsekapital** | | | |
| Minskning(+)/ökning(-) av varulager | | -1 505 | -1 316 |
| Minskning(+)/ökning(-) av kundfordringar | | -6 015 | -8 964 |
| Minskning(+)/ökning(-) av övriga kortfristiga fordringar | | -44 883 | 8 926 |
| Minskning(-)/ökning(+) av övriga kortfristiga skulder | | 5 510 | -13 094 |
| **Kassaflöde från den löpande verksamheten** | | **49 465** | **47 337** |
| **Investeringsverksamheten** | | | |
| Fusion | | 0 | 1 126 |
| Förvärv av dotterföretag | | 0 | -25 |
| Försäljning av koncernandelar | | 0 | 21 058 |
| Försäljning av materiella anläggningstillgångar | | 0 | 3 246 |
| Förvärv av materiella & immateriella anläggningstillgångar | | -20 866 | -15 656 |
| Förvärv av finansiella anläggningstillgångar | | -182 | 0 |
| **Kassaflöde från investeringsverksamheten** | | **-21 048** | **9 749** |
| **Finansieringsverksamheten** | | | |
| Nettoförändring koncernkonto | | -25 813 | -54 512 |
| **Kassaflöde från finansieringsverksamheten** | | **-25 813** | **-54 512** |
| **Årets kassaflöde** | | **2 605** | **2 574** |
| **Likvida medel vid årets början** | | **11 412** | **7 304** |
| **Övertagna likvida medel** | | **0** | **1 534** |
| **Likvida medel vid årets slut** | 21 | **14 017** | **11 412** |

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# NOTER

## Not 1 Allmän information

*Bodycote Värmebehandling AB med organisationsnummer 556077-8028 är ett aktiebolag registrerat i Sverige* med säte i Göteborg. Adressen till huvudkontoret är Spadegatan 23, Angered.

Det utländska moderföretagets koncernredovisning kan erhållas från bolagets hemsida.

Ingen koncernredovisning har upprättats med stöd av Årsredovisningslagen 7 kap. 2 § punkt 1.

## Not 2 Redovisningsprinciper och värderingsprinciper

Företaget tillämpar Årsredovisningslagen (1995:1554) och Bokföringsnämndens allmänna råd BFNAR 2012:1 *Årsredovisning och koncernredovisning* ("K3").

### Intäkter

Fakturerad försäljning omfattar värmebehandlingstjänster av olika metaller. Intäkterna redovisas när inkomsten kan beräknas på ett tillförlitligt sätt och när huvudsakligen alla risker och rättigheter som är förknippade med ägandet övergått till köparen, vilket normalt intäffar i samband med leverans. Behandlade produkter tillhör köparen.

### Leasingavtal

Ett finansiellt leasingavtal är ett avtal enligt vilket de ekonomiska risker och fördelar som förknippas med ägandet av en tillgång i allt väsentligt överförs från leasegivaren till leasetagaren. Övriga leasingavtal klassificeras som operationella leasingavtal. Samtliga leasingavtal redovisas enligt reglerna för operationell leasing.

*Leasetagare*
Leasingavgifter vid operationella leasingavtal kostnadsförs linjärt över leasingperioden, såvida inte ett annat systematiskt sätt bättre återspeglar användarens ekonomiska nytta över tiden.

*Leasegivare*
Leasingintäkter vid operationella leasingavtal intäktsförs linjärt över leasingperioden, såvida inte ett annat systematiskt sätt bättre återspeglar hur de ekonomiska fördelar som hänförs till objektet minskar över tiden.

### Fusion
Fusion och fusionsberäkning har upprättats och redovisats enligt BFNAR 2020:5. De övertgna tillgångarna och skulderna har övertagits till bokförda värden i det överlåtande företaget i enligthet med kapitel 2 punkt 8 i BFNAR 2020:5.

### Utländsk valuta

Företagets redovisningsvaluta är svenska kronor (SEK).

*Omräkning av poster i utländsk valuta*
Vid varje balansdag räknas monetära poster i utländsk valuta om till balansdagens kurs. Icke-monetära poster, som värderas till historiskt anskaffningsvärde i en utländsk valuta, räknas inte om. Valutakursdifferenser redovisas i rörelseresultatet eller som finansiell post utifrån den underliggande affärshändelsen, i den period de uppstår, med undantag för transaktioner som utgör säkring och som uppfyller villkoren för säkringsredovisning av kassaflöden eller av nettoinvesteringar.

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**Ersättningar till anställda**

Kortfristiga ersättningar: Kortfristiga ersättningar i koncernen utgörs av lön, sociala avgifter, betald semester, betald sjukfrånvaro, sjukvård och bonus. Kortfristiga ersättningar redovisas som en kostnad och en skuld då det finns en legal eller informell förpliktelse att betala ut en ersättning.
Ersättningar efter avslutad anställning: I Bodycote Värmebehandling AB förekommer avgiftsbestämda pensionsplaner.
I avgiftsbestämda planer betalar företaget fastställda avgifter till ett annat företag och har inte någon legal eller informell förpliktelse att betala något ytterligare även om det andra företaget inte kan uppfylla sitt åtagande. Företagets resultat belastas för kostnader i takt med att de anställdas tjänster utförts.
Ersättningar vid uppsägning: Ersättningar vid uppsägning utgår då något företag inom koncernen beslutar att avsluta en anställning före den normala tidpunkten för anställningens upphörande eller då en anställd accepterar ett erbjudande om frivillig avgång i utbyte mot sådan ersättning. Om ersättningen inte ger företaget någon framtida ekonomisk fördel redovisas en skuld och en kostnad när företaget har en legal eller informell förpliktelse att lämna sådan ersättning. Ersättningen värderas till den bästa uppskattningen av den ersättning som skulle krävas för att reglera förpliktelsen på balansdagen.

**Koncernbidrag**
Erhållna och lämnade koncernbidrag redovisas som bokslutsdisposition i resultaträkningen.

**Inkomstskatter**
*Skattekostnaden utgörs av summan av aktuell skatt och uppskjuten skatt.*

*Aktuell skatt*
Aktuell skatt beräknas på det skattepliktiga resultatet för perioden. Skattepliktigt resultat skiljer sig från det redovisade resultatet i resultaträkningen då det har justerats för ej skattepliktiga intäkter och ej avdragsgilla kostnader samt för intäkter och kostnader som är skattepliktiga eller avdragsgilla i andra perioder. Aktuell skatteskuld beräknas enligt de skattesatser som gäller per balansdagen.

*Uppskjuten skatt*
Uppskjuten skatt redovisas på temporära skillnader mellan det redovisade värdet på tillgångar och skulder i de finansiella rapporterna och det skattemässiga värdet som används vid beräkning av skattepliktigt resultat. Uppskjuten skatt redovisas enligt den s k balansräkningsmetoden. Uppskjutna skatteskulder redovisas för i princip alla skattepliktiga temporära skillnader, och uppskjutna skattefordringar redovisas i princip för alla avdragsgilla temporära skillnader i den omfattning det är sannolikt att beloppen kan utnyttjas mot framtida skattepliktiga överskott. Obeskattade reserver redovisas inklusive uppskjuten skatteskuld.

Det redovisade värdet på uppskjutna skattefordringar omprövas varje balansdag och reduceras till den del det inte längre är sannolikt att tillräckliga skattepliktiga resultat kommer att finnas tillgängliga för att utnyttjas, helt eller delvis, mot den uppskjutna skattefordran.

Värderingen av uppskjuten skatt baseras på hur företaget, per balansdagen, förväntar sig att återvinna det redovisade värdet för motsvarande tillgång eller reglera det redovisade värdet för motsvarande skuld. Uppskjuten skatt beräknas baserat på de skattesatser och skatteregler som har beslutats före balansdagen.

*Aktuell och uppskjuten skatt för perioden*
Aktuell och uppskjuten skatt redovisas som en kostnad eller intäkt i resultaträkningen, utom när skatten är hänförlig till transaktioner som redovisats direkt mot eget kapital. I sådana fall ska även skatten redovisas direkt mot eget kapital.

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**Immateriella tillgångar**
*Goodwill*
Goodwill redovisas till anskaffningsvärde efter avdrag för ackumulerade avskrivningar och eventuella nedskrivningar. Avskrivningar kostnadsförs så att tillgångens anskaffningsvärde skrivs av linjärt över dess bedömda nyttjandeperiod.
Immateriella anläggningstillgångars nyttjandeperioder uppskattas till:

| | |
|---|---|
| Goodwill genom fusion | 5 år |

**Materiella anläggningstillgångar**
Materiella anläggningstillgångar redovisas till anskaffningsvärde efter avdrag för ackumulerade avskrivningar och eventuella nedskrivningar.

Anskaffningsvärdet består av inköpspriset och utgifter som är direkt hänförliga till förvärvet för att bringa den på plats och i skick att användas. Tillkommande utgifter inkluderas endast i tillgången eller redovisas som en separat tillgång, när det är sannolikt att framtida ekonomiska fördelar som är förknippade med posten kommer att tillfalla företaget och att anskaffningsvärdet för densamma kan mätas på ett tillförlitligt sätt. Alla övriga kostnader för reparationer och underhåll samt tillkommande utgifter redovisas i resultaträkningen i den period då de uppkommer.

Då skillnaden i förbrukningen av en materiell anläggningstillgångs betydande komponenter bedöms vara väsentlig, delas tillgången upp på dessa komponenter.

Avskrivningar på materiella anläggningstillgångar kostnadsförs så att tillgångens anskaffningsvärde, eventuellt minskat med beräknat restvärde vid nyttjandeperiodens slut, skrivs av linjärt över dess bedömda nyttjandeperiod. Om en tillgång har delats upp på olika komponenter skrivs respektive komponent av separat över dess nyttjandeperiod. Avskrivning påbörjas är den materiella anläggningstillgången kan tas i bruk. Materiella anläggningstillgångars nyttjandeperioder uppskattas till:

| | |
|---|---|
| Fastighet | 10-50 år |
| Maskiner och andra tekniska anläggningar: | 2-20 år |
| Inventarier, verktyg och installationer | 5-10 år |

Nyttjandeperioden för mark är obegränsad och därför skrivs mark inte av.

Bedömda nyttjandeperioder och avskrivningsmetoder omprövas om det finns indikationer på att förväntad förbrukning har förändrats väsentligt jämfört med uppskattningen vid föregående balansdag. Då företaget ändrar bedömning av nyttjandeperioder, omprövas även tillgångens eventuella restvärde. Effekten av dessa ändringar redovisas framåtriktat.

*Borttagande från balansräkningen*
Det redovisade värdet för en materiell anläggningstillgång tas bort från balansräkningen vid utrangering eller avyttring, eller när inte några framtida ekonomiska fördelar väntas från användning eller utrangering/avyttring av tillgången eller komponenten. Den vinst eller förlust som uppkommer när en materiell anläggningstillgång eller en komponent tas bort från balansräkningen är skillnaden mellan vad som eventuellt erhålls, efter avdrag för direkta försäljningskostnader, och tillgångens redovisade värde. Den realisationsvinst eller realisationsförlust som uppkommer när en materiell anläggningstillgång eller en komponent tas bort från balansräkningen redovisas i resultaträkningen som en övrig rörelseintäkt eller övrig rörelsekostnad.

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**Nedskrivningar av materiella anläggningstillgångar och immateriella tillgångar**
Vid varje balansdag analyserar företaget de redovisade värdena för materiella anläggningstillgångar och immateriella tillgångar för att fastställa om det finns någon indikation på att dessa tillgångar har minskat i värde. Om så är fallet, beräknas tillgångens återvinningsvärde för att kunna fastställa värdet av en eventuell nedskrivning. Där det inte är möjligt att beräkna återvinningsvärdet för en enskild tillgång, beräknas återvinningsvärdet för den kassagenererande enhet till vilken tillgången hör.

Återvinningsvärdet är det högsta av verkligt värde med avdrag för försäljningskostnader och nyttjandevärdet. Verkligt värde med avdrag för försäljningskostnader är det pris som företaget beräknar kunna erhålla vid en försäljning mellan kunniga, av varandra oberoende parter, och som har ett intresse av att transaktionen genomförs, med avdrag för sådana kostnader som är direkt hänförliga till försäljningen. Vid beräkning av nyttjandevärde diskonteras uppskattat framtida kassaflöde till nuvärde med en diskonteringsränta före skatt som återspeglar aktuell marknadsbedömning av pengars tidsvärde och de risker som förknippas med tillgången. För att beräkna de framtida kassaflödena har företaget använt budget och prognoser för de kommande fem åren.

Om återvinningsvärdet för en tillgång (eller kassagenererande enhet) fastställs till ett lägre värde än det redovisade värdet, skrivs det redovisade värdet på tillgången (eller den kassagenererande enheten) ned till återvinningsvärdet. En nedskrivning har omedelbart kostnadsföras i resultaträkningen.

Vid varje balansdag gör företaget en bedömning om den tidigare nedskrivningen inte längre är motiverad. Om så är fallet återförs nedskrivningen delvis eller helt. Då en nedskrivning återförs, ökar tillgångens (den kassagenererande enhetens) redovisade värde. Det redovisade värdet efter återföring av nedskrivning får inte överskrida det redovisade värde som skulle fastställts om ingen nedskrivning gjorts av tillgången (den kassagenererande enheten) under tidigare år. En återföring av en nedskrivning redovisas direkt i resultaträkningen.

**Andelar i koncernföretag**
Andelar i dotterföretag redovisas till anskaffningsvärde. Utdelning från dotterföretag redovisas som intäkt när rätten att få utdelning bedöms som säker och kan beräknas på ett tillförlitligt sätt.

**Varulager**
Varulager värderas till det lägsta av anskaffningsvärdet och nettoförsäljningsvärdet på balansdagen. Anskaffningsvärdet beräknas genom tillämpning av först- in-först-ut-metoden (FIFU). Nettoförsäljningsvärde är försäljningsvärdet efter avdrag för beräknade kostnader som direkt kan hänföras till försäljningstransaktionen.

I anskaffningsvärdet ingår utgifter för inköp, tillverkning samt andra utgifter för att bringa varorna till deras aktuella plats och skick. I anskaffningsvärdet för en egentillverkad tillgång ingår, utöver sådana kostnader som direkt kan hänföras till produktionen av tillgången, en skälig andel av indirekta tillverkningskostnader.

**Likvida medel**
Likvida medel inkluderar kassamedel och disponibla tillgodohavanden hos banker och andra kreditinstitut samt andra kortfristiga likvida placeringar som lätt kan omvandlas till kontanter och är föremål för en obetydlig risk för värdefluktuationer. För att klassificeras som likvida medel får löptiden inte överskrida tre månader från tidpunkten för förvärvet.

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**Avsättningar**
Avsättningar redovisas när företaget har en befintlig förpliktelse (legal eller informell) som en följd av en inträffad händelse, det är sannolikt att ett utflöde av resurser kommer att krävas för att reglera förpliktelsen och en tillförlitlig uppskattning av beloppet kan göras.

En avsättning omprövas varje balansdag och justeras så att den återspeglar den bästa uppskattningen av det belopp som krävs för att reglera den befintliga förpliktelsen på balansdagen, med hänsyn tagen till risker och osäkerheter förknippade med förpliktelsen. När en avsättning beräknas genom att uppskatta de utbetalningar som förväntas krävas för att reglera förpliktelsen, motsvarar det redovisade värdet nuvärdet av dessa utbetalningar.

Där en del av eller hela det belopp som krävs för att reglera en avsättning förväntas bli ersatt av en tredje part, ska gottgörelsen särredovisas som en tillgång i balansräkningen när det är så gott som säkert att den kommer att erhållas om företaget reglerar förpliktelsen och beloppet kan beräknas tillförlitligt.

*Omstruktureringsreserv*
En avsättning för omstrukturering av verksamhet redovisas då företaget måste fullfölja omstruktureringen till följd av en legal eller informell förpliktelse. En informell förpliktelse föreligger när företaget har en fastställd och utförlig omstruktureringsplan och de som berörs har en välgrundad uppfattning om att omstruktureringen kommer att genomföras.

*Miljöreserv*
Med stöd av miljölagstiftning aktualiserar myndigheterna frågor om markundersökningar och eventuell efterbehandling vid nedlagda verksamheter. Ansvaret för eventuell efterbehandling avgörs i respektive enskilt fall ofta med hjälp av skälighetsbedömningar. Avsättningar för miljörelaterade kostnader vilka sammanhänger med nedlagd verksamhet har gjorts utifrån bedömningar om framtida återställandekostnad. Förändringar i antaganden eller lagstiftning kan komma att medföra merkostnader.

*Förlustkontrakt*
En avsättning för förlustkontrakt redovisas då de oundvikliga utgifterna för att uppfylla kontraktet överstiger de förväntade ekonomiska fördelarna.

**Ansvarsförbindelser**
En ansvarsförbindelse är en möjlig förpliktelse till följd av inträffade händelser och vars förekomst endast kommer att bekräftas av att en eller flera osäkra framtida händelser, som inte helt ligger inom företagets kontroll, inträffar eller uteblir, eller en befintlig förpliktelse till följd av inträffade händelser, men som inte redovisas som skuld eller avsättning eftersom det inte är sannolikt att ett utflöde av resurser kommer att krävas för att reglera förpliktelsen eller förpliktelsens storlek inte kan beräknas med tillräcklig tillförlitlighet. Ansvarsförbindelser redovisas inom linjen i balansräkningen.

**Eventualtillgångar**
En eventualtillgång är en möjlig tillgång till följd av inträffade händelser och vars förekomst endast kommer att bekräftas av att en eller flera osäkra framtida händelser, som inte helt ligger inom företagets kontroll, inträffar eller uteblir. En eventualtillgång redovisas inte som en tillgång i balansräkningen.

**Kassaflödesanalys**
Kassaflödesanalysen visar företagets förändringar av företagets likvida medel under räkenskapsåret. Kassaflödesanalysen har upprättats enligt den indirekta metoden. Det redovisade kassaflödet omfattar endast transaktioner som medfört in- och utbetalningar.

## Not 3 Viktiga uppskattningar och bedömningar

Den finansiella rapporten innehåller inga bedömningar och uppskattningar som har betydande effekt på de redovisade beloppen.

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## Not 4 Nettoomsättningens fördelning

| Nettoomsättning per geografisk marknad | 2022 | 2021 |
|---|---|---|
| Sverige | 243 616 | 218 952 |
| Europa exkl Sverige | 15 973 | 12 880 |
| Övriga marknader | 14 460 | 13 705 |
| **Summa** | **274 049** | **245 537** |

## Not 5 Upplysning om ersättning till revisorn

| | 2022 | 2021 |
|---|---|---|
| PwC | | |
| revisionsuppdrag | 843 | 678 |
| **Summa** | **843** | **678** |

Med revisionsuppdrag avses revisorns ersättning för den lagstadgade revisionen. Arbetet innefattar granskningen av årsredovisningen och bokföringen, styrelsens förvaltning samt arvode för revisionsrådgivning som lämnats i samband med revisionsuppdraget.

## Not 6 Leasingavtal

### Operationella leasingavtal - leasetagare

Företaget är leasetagare genom operationella leasingavtal avseende lokaler, verkstadsfordon, tankar i produktionen samt tjänstebilar. Summan av årets kostnadsförda leasingavgifter avseende operationella leasingavtal uppgår till 7 938 Tkr. Framtida minimileaseavgifter avseende icke uppsägningsbara operationella leasingavtal förfaller enligt följande:

| Förfallotidpunkt: | 2022 | 2021 |
|---|---|---|
| Inom ett år | 5 737 | 5 526 |
| Senare än ett år men inom fem år | 17 103 | 10 874 |
| Senare än fem år | 14 686 | 14 871 |
| **Summa** | **37 526** | **31 271** |

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## Not 7 Antal anställda, löner, andra ersättningar och sociala kostnader

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Medeltalet anställda | Antal anställda | Varav antal män | Antal anställda | Varav antal män |
| Totalt | 138 | 121 | 126 | 118 |

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Fördelning ledande befattningshavare per balansdagen | | |
| styrelseledamöter | 3 | 3 |
| andra personer i företagets ledning inkl VD | 0 | 0 |
| Män: | | |
| styrelseledamöter | 3 | 3 |
| andra personer i företagets ledning inkl VD | 1 | 0 |
| Totalt | 3 | 3 |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Löner, andra ersättningar m m | Löner och andra ersättningar | Soc kostn (varav pensions-kostnader) | Löner och andra ersättningar | Soc kostn (varav pensions-kostnader) |
| Totalt | 60 986 | 28 720 (8 017) | 59 187 | 26 834 (7 420) |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Löner och andra ersättningar fördelade mellan styrelse-ledamöter och anställda | Styrelse (varav tantiem och dylikt) | Övriga anställda | Styrelse (varav tantiem och dylikt) | Övriga anställda |
| Totalt | 3 | 60 983 | 0 | 59 187 |

## Not 8 Bokslutsdispositioner

| | 2022 | 2021 |
|---|---|---|
| Förändring överavskrivningar | 960 | 2 007 |
| Summa | 960 | 2 007 |

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## Not 9 Årets kostnad för aktuell skatt och uppskjuten skatt

| | 2022 | 2021 |
|---|---|---|
| Aktuell skatt | -8 918 | -10 696 |
| Skatt hänförlig till tidigare år | -248 | -504 |
| Uppskjuten skatt | 0 | 8 |
| **Årets kostnad för aktuell och uppskjuten skatt** | **-9 166** | **-11 193** |

**Avstämning årets skattekostnad**

| | 2022 | 2021 |
|---|---|---|
| Redovisat resultat före skatt | 73 347 | 55 903 |
| | | |
| Skatt beräknad med skattesats 20,6 % | -15 110 | -11 516 |
| Skatteeffekt av ej avdragsgilla kostnader | -92 | -265 |
| Skatteeffekt av Goodwill avskrivning från Fusion | -3 254 | -3 254 |
| Skatteeffekt av ej skattepliktiga intäkter | 9 538 | 4 339 |
| **Summa** | **-8 918** | **-10 696** |
| Justeringar som redovisats innevarande år avseende tidigare års aktuella skatt | -248 | -504 |
| Omvärdering uppskjuten skatt pga ny skattesats 2021 | 0 | 8 |
| **Årets redovisade skattekostnad** | **-9 166** | **-11 193** |

## Not 10 Goodwill

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående anskaffningsvärden | 78 972 | 0 |
| Från fusion av dotterbolag | 0 | 78 972 |
| **Utgående ackumulerade anskaffningsvärden** | **78 972** | **78 972** |
| Ingående avskrivningar | -39 486 | 0 |
| Från fusion av dotterbolag | 0 | -23 692 |
| Årets avskrivningar enligt plan | -15 794 | -15 794 |
| **Utgående ackumulerade avskrivningar** | **-55 280** | **-39 486** |
| **Utgående planenligt restvärde** | **23 692** | **39 486** |

Goodwill kommer från år 2021 genomförd fusion av Bodycote Kristinehamn AB, avskrivning startad från 2019 06 då bolaget förvärvades.

## Not 11 Byggnader och mark

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående anskaffningsvärden * | 94 720 | 94 345 |
| Inköp | 1 514 | 6 993 |
| Försäljningar/utrangeringar | 0 | -5 918 |
| Omvärdering av framtida utgift för återställande | -900 | -700 |
| **Utgående ackumulerade anskaffningsvärden** | **95 334** | **94 720** |
| Ingående avskrivningar | -60 476 | -61 589 |
| Försäljningar/utrangeringar | 0 | 3 460 |
| Årets avskrivningar enligt plan | -2 314 | -2 348 |
| **Utgående ackumulerade avskrivningar** | **-62 790** | **-60 476** |
| **Utgående planenligt restvärde** | **32 544** | **34 244** |

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## Not 12 Maskiner och andra tekniska anläggningar

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående anskaffningsvärde | 399 524 | 371 659 |
| Inköp | 21 512 | 24 963 |
| Från dotterbolag övertagna anskaffningsvärden genom fusion | 0 | 61 579 |
| Försäljningar/utrangeringar | 0 | -58 676 |
| **Utgående ackumulerade anskaffningsvärden** | **421 036** | **399 524** |
| Ingående avskrivningar enligt plan | -305 246 | -304 239 |
| Från dotterbolag övertagna avskrivningsvärden genom fusion | 0 | -41 985 |
| Försäljningar/utrangeringar | 0 | 57 887 |
| Årets avskrivningar enligt plan | -18 118 | -16 908 |
| **Utgående ackumulerade avskrivningar enligt plan** | **-323 364** | **-305 246** |
| **Utgående planenligt restvärde** | **97 672** | **94 278** |

## Not 13 Inventarier, verktyg och installationer

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående anskaffningsvärde | 6 112 | 6 141 |
| Inköp | 692 | 67 |
| Från dotterbolag övertagna anskaffningsvärden genom fusion | 0 | 579 |
| Försäljningar/utrangeringar | -451 | -675 |
| **Utgående ackumulerade anskaffningsvärden** | **6 353** | **6 112** |
| Ingående avskrivningar enligt plan | -5 658 | -5 447 |
| Från dotterbolag övertagna anskaffningsvärden genom fusion | 0 | -579 |
| Försäljningar/utrangeringar | 451 | 675 |
| Årets avskrivningar enligt plan | -287 | -307 |
| **Utgående ackumulerade avskrivningar enligt plan** | **-5 494** | **-5 658** |
| **Utgående planenligt restvärde** | **860** | **454** |

## Not 14 Pågående nyanläggningar och förskott avseende materiella anläggningstillgångar

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående redovisat värde | 10 700 | 22 473 |
| Investeringar genom fusion | 0 | 3 893 |
| Investeringar | 21 766 | 16 356 |
| Under året genomförda omfördelningar | -23 719 | -32 023 |
| **Utgående redovisat värde** | **8 747** | **10 700** |

## Not 15 Andelar i koncernföretag

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ingående anskaffningsvärde | 92 803 | 184 956 |
| Inköp | 0 | 25 |
| Fusion | 0 | -92 103 |
| Försäljningar | 0 | -75 |
| **Utgående ackumulerade anskaffningsvärden** | **92 803** | **92 803** |
| **Utgående redovisat värde** | **92 803** | **92 803** |

*Företagets innehav av andelar i koncernföretag*

| Företagets namn | Kapital-andel | Rösträtts-andel | Antal andelar | Årets resultat | Eget kapital |
|---|---|---|---|---|---|
| Bodycote Ytbehandling AB | 100% | 100% | 5 000 | 17 723 | 58 691 |

| Företagets namn | | Org.nr | Säte |
|---|---|---|---|
| Bodycote Ytbehandling AB | 100% | 556176-5503 | Göteborg |

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## Not 16 Uppskjuten skattefordran

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| **Uppskjuten skattefordran** | | |
| Uppskjuten skatt hänförlig till avsättning | 554 | 372 |
| Uppskjuten skatt hänförlig till skattereduktion för investeringar under 2021 (SkU3) | 576 | 576 |
| **Summa uppskjuten skattefordran** | **1 130** | **949** |

Uppskjutna skattefordringar hänförlig till avsättning värderas till högst det belopp som sannolikt kommer att återvinnas baserat på innevarande och framtida skattepliktiga resultat.

Skattesatsen för beräkning av uppskjuten skatt uppgår till 20,6 %.

## Not 17 Förutbetalda kostnader och upplupna intäkter

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Förutbetalda hyror | 785 | 713 |
| Förutbetalda försäkringspremier | 898 | 1 214 |
| Övriga poster | 2 674 | 2 663 |
| **Summa** | **4 357** | **4 589** |

## Not 18 Obeskattade reserver

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Ackumulerade överavskrivningar | 57 859 | 58 819 |
| **Summa** | **57 859** | **58 819** |

## Not 19 Övriga avsättningar

| 2022-12-31 | Miljörelaterade avsättningar | Summa |
|---|---|---|
| Vid årets början | 2 706 | **2 706** |
| Tillkommande/Återföring avsättningar | -18 | **-18** |
| **Vid årets slut** | **2 689** | **2 689** |

Miljörelaterade avsättningar: 1789 tkr avser kostnader för undersökning och eventuell återställning/sanering av tidigare verksamhet i Anderstorp och Stockholm, 900 tkr avser bedömda utgifter för framtida legal skyldighet att återställa mark till ursprungligt skick för stängd och avyttrad verksamhet/fastighet i Stockholm enligt bedömning efter genomför undersökning samt framtida legala skyldigheter att genomför undersökningar i Angered och Malmö.

## Not 20 Upplupna kostnader och förutbetalda intäkter

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Upplupna semesterlöner | 13 431 | 12 727 |
| Upplupna sociala avgifter | 1 903 | 2 949 |
| Upplupna pensionskostnader | 3 745 | 1 983 |
| Övriga poster | 2 623 | 4 959 |
| **Summa** | **21 702** | **22 618** |

20230707727590

**Bodycote Värmebehandling AB**
*556077-8028*

## Not 21 Likvida medel i kassaflödet

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Kassamedel | 14 017 | 11 412 |
| **Summa** | **14 017** | **11 412** |

Bolagets likvida medel avser behållning i koncerngemensamt cashpoolkonto, vilket redovisas under balanspost kortfristiga fordringar hos koncernföretag.

## Not 22 Upplysningar om närstående

Transaktioner mellan företaget och dess närstående har skett på marknadsmässiga grunder.

## Not 23 Ställda säkerheter och eventualförpliktelser

Några poster inom linjen finns ej.

## Not 24 Väsentliga händelser efter balansdagen

Inga händelser har skett efter räkenskapsåret med väsentlig påverkan på verksamhetens karaktär och inriktning, eller dess lång- och kortsiktiga förtjänstmöjligheter.

Göteborg den 2023-06-30

Benjamin Fidler
Styrelsens ordförande

Mikael Fällström

Petr Jelinek

Vår revisionsberättelse har avgivits den

Öhrlings PricewaterhouseCoopers AB

Patrik Resebo
*Auktoriserad revisor*

20230707275911

**Bodycote Värmebehandling AB**
556077-8028

## Not 21 Likvida medel i kassaflödet

| | 2022-12-31 | 2021-12-31 |
|---|---|---|
| Kassamedel | 14 017 | 11 412 |
| **Summa** | **14 017** | **11 412** |

*Bolagets likvida medel avser behållning i koncerngemensamt cashpoolkonto, vilket redovisas under balanspost kortfristiga* fordringar hos koncernföretag.

## Not 22 Upplysningar om närstående

Transaktioner mellan företaget och dess närstående har skett på marknadsmässiga grunder.

## Not 23 Ställda säkerheter och eventualförpliktelser

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Göteborg den 2023-06-30

Benjamin Fidler
Styrelsens ordförande

Mikael Fällström

Petr Jelinek

Vår revisionsberättelse har avgivits den 30/6 - 2023

Öhrlings PricewaterhouseCoopers AB

Patrik Resebo
Auktoriserad revisor

20230707227592

pwc

# Revisionsberättelse

Till bolagsstämman i Bodycote Värmebehandling AB, org.nr 556077-8028

## Rapport om årsredovisningen

### Uttalanden

Vi har utfört en revision av årsredovisningen för Bodycote Värmebehandling AB för år 2022.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Bodycote Värmebehandling ABs finansiella ställning per den 31 december 2022 och av dess finansiella resultat och kassaflöde för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen för Bodycote Värmebehandling AB.

### Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till Bodycote Värmebehandling AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

### Styrelsens ansvar

Det är styrelsen som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

### Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

En ytterligare beskrivning av vårt ansvar för revisionen av årsredovisningen finns på Revisorsinspektionens webbplats: www.revisorsinspektionen.se/revisornsansvar. Denna beskrivning är en del av revisionsberättelsen.

20230707275593

## Rapport om andra krav enligt lagar och andra författningar

### Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens förvaltning för Bodycote Värmebehandling AB för år 2022 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter ansvarsfrihet för räkenskapsåret.

### Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till Bodycote Värmebehandling AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

### Styrelsens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation, och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt.

### Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

En ytterligare beskrivning av vårt ansvar för revisionen av förvaltningen finns på Revisorsinspektionens webbplats: www.revisorsinspektionen.se/revisornsansvar. Denna beskrivning är en del av revisionsberättelsen.

Göteborg 2023-06-30

Öhrlings PricewaterhouseCoopers AB

Patrik Resebo
Auktoriserad revisor

Bodycote

# Annual Report 2022

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 many customers' needs and continue to deliver long-term success for our shareholders and other stakeholders.

## Driving performance with our Core Values

### Honesty and Transparency

Image removed

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.

### Respect and Responsibility

Image removed

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

Image removed

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 addresses the markets we serve with our superior levels of service and unmatched ability to satisfy customers' needs. Bodycote supports many market sectors; however, we categorise our business into three major groups:

## Aerospace and Defence

Image removed

The aerospace market is highly complex; we primarily treat engine components and landing gear that rely on our solutions to improve performance. Our services provide thermal processing solutions across a wide range of applications which include commercial, business and military aircraft.

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

## Automotive

Image removed

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)

Image removed

We serve a vast range of customers across multiple industry segments in our General Industrial business. These customers range from industrial machinery to agricultural equipment, industrial gas turbines, power generation, wind turbines, oil & gas components, construction, electronics and medical equipment.

Our success in these markets is due to our local plant networks, combined with superior customer service, using the breadth of processes available within Bodycote and extensive technical resources 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 improve the properties of metals and alloys and 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 in order to obtain the desired mechanical, chemical and metallurgical properties during the manufacturing of a product.

Classical Heat Treatment is 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 and increase the lifespan of the products our customers manufacture, improving 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 human life every day, whether it's a vehicle seat belt buckle to ensure that it keeps the passenger safe during an accident or a turbine blade bringing power to your neighbourhood.

Product life is extended by accurately treating products, carried out in precisely controlled industrial furnaces which can heat up 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.

## Specialist Technologies

Our Specialist Technologies business is a selection of highly differentiated, early-stage processes with high margins, significant market opportunities and solid growth prospects. Our Specialist Technologies are generally lower carbon-emitting and, therefore, 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 inc. Powdermet®**
Additive manufacturing of often complex components by combining with HIP.

**Specialty Stainless Steel ($S^3P$) Processes**
Improves the strength, hardness and wear resistance of stainless steel. Standard heat treatments negatively impact the corrosion resistance of stainless steel, but our proprietary $S^3P$ process can provide dramatically improved material properties while maintaining corrosion resistance.

**Surface Technology**
Enhances component life using ceramic and ceramic/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.

Image removed

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# 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 to 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 change 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 and increasing the efficiency 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

**4,933**[1]
employees

**>165**
facilities

**22**
countries

**Revenue by geography**

Graphic removed

**Revenue by market sector**

Graphic removed

1 At year end 2022.

## North America

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

Graphic removed

>55 facilities

1,602 employees

## Western Europe

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

Graphic removed

>80 facilities

2,297 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.

Graphic removed

>25 facilities

1,034 employees

Graphic removed

# Understanding Bodycote
# **Highlights**

## Highlights

## Financial summary

| | **2022** | 2021 |
|---|---|---|
| Revenue | **£743.6m** | £615.8m |
| Headline operating profit[1] | **£112.2m** | £94.8m |
| Headline operating margin[1] | **15.1%** | 15.4% |
| Free cash flow[1] | **£84.0m** | £105.0m |
| Basic headline earnings per share[1,2] | **42.7p** | 35.8p |
| Ordinary dividend per share | **21.3p** | 20.0p |
| Return on capital employed[1] | **13.3%** | 12.0% |

## Additional statutory measures

| | | |
|---|---|---|
| Operating profit | **£102.0m** | £83.8m |
| Profit after tax | **£74.3m** | £60.0m |
| Net cash generated from operating activities | **£142.9m** | £144.3m |
| Basic earnings per share | **38.6p** | 31.2p |

## Financial performance

**£743.6m**
**Revenues up 20.8%**

**£112.2m**
**Headline operating profit up 18%**

**42.7p**
**Headline EPS up 19%**

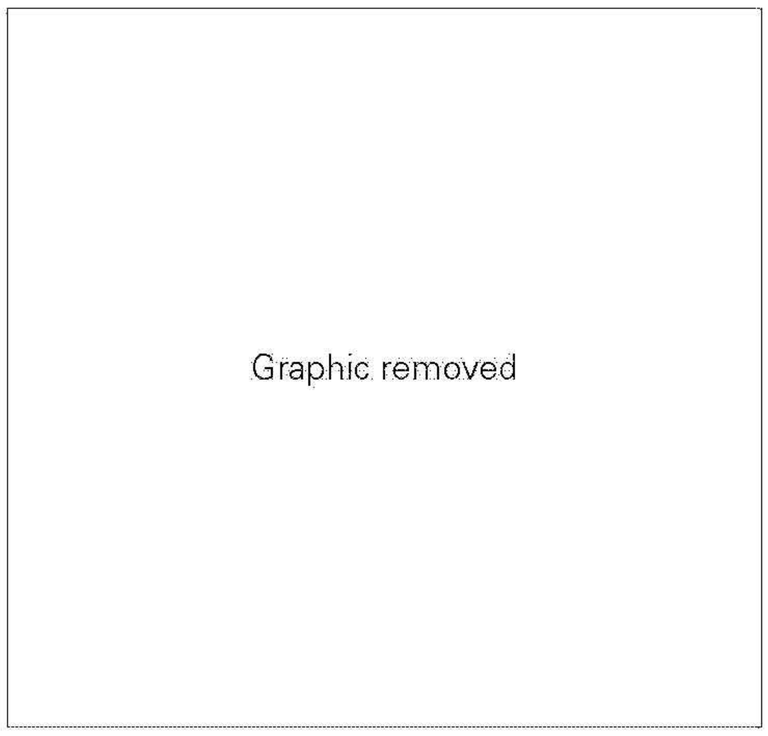
**£142.9m**
**Net cash generated from operating activities**

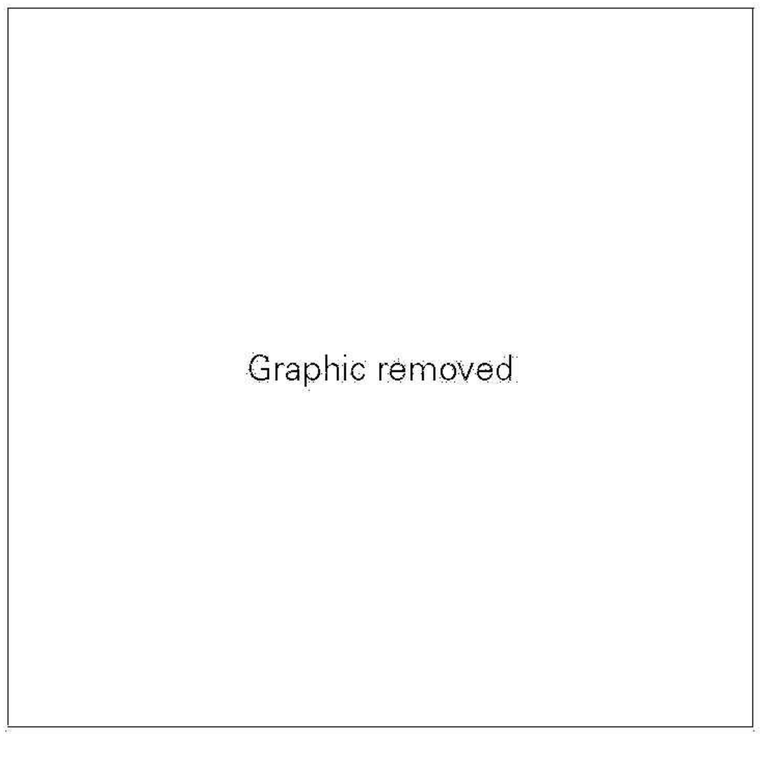
## Key Achievements

- Permanent price increases fully recovered labour and general cost inflation
- Nil margin surcharges completely recovered energy cost inflation in H2 (shortfall of £5m in H1)
- Headline operating margin of 15.1%; 16.1% excluding the dilution effect of energy surcharges
- Good momentum in higher growth markets. Growth[3] excluding surcharges well above background demand:
  - Specialist Technologies up 14%
  - Emerging Markets up 16%
  - Civil aerospace up 19%
- Final ordinary dividend 14.9p, total year 21.3p (2021: 20.0p)

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 146 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

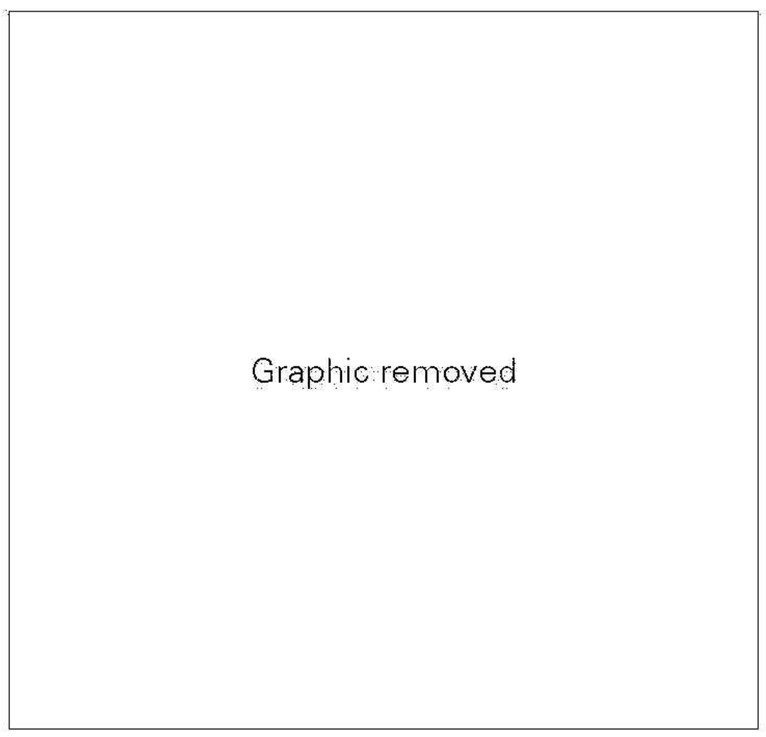


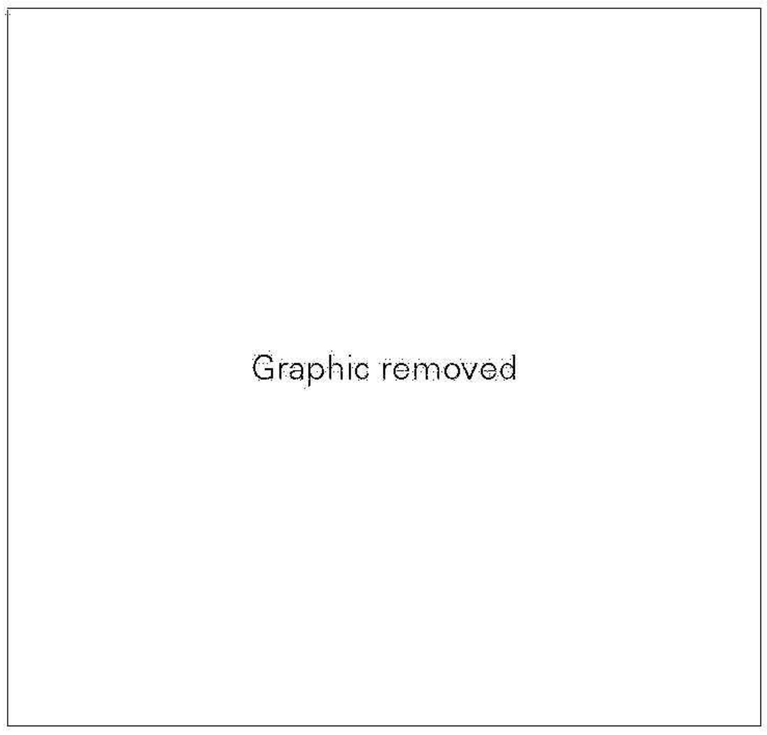









# Understanding Bodycote
# **The investment case**

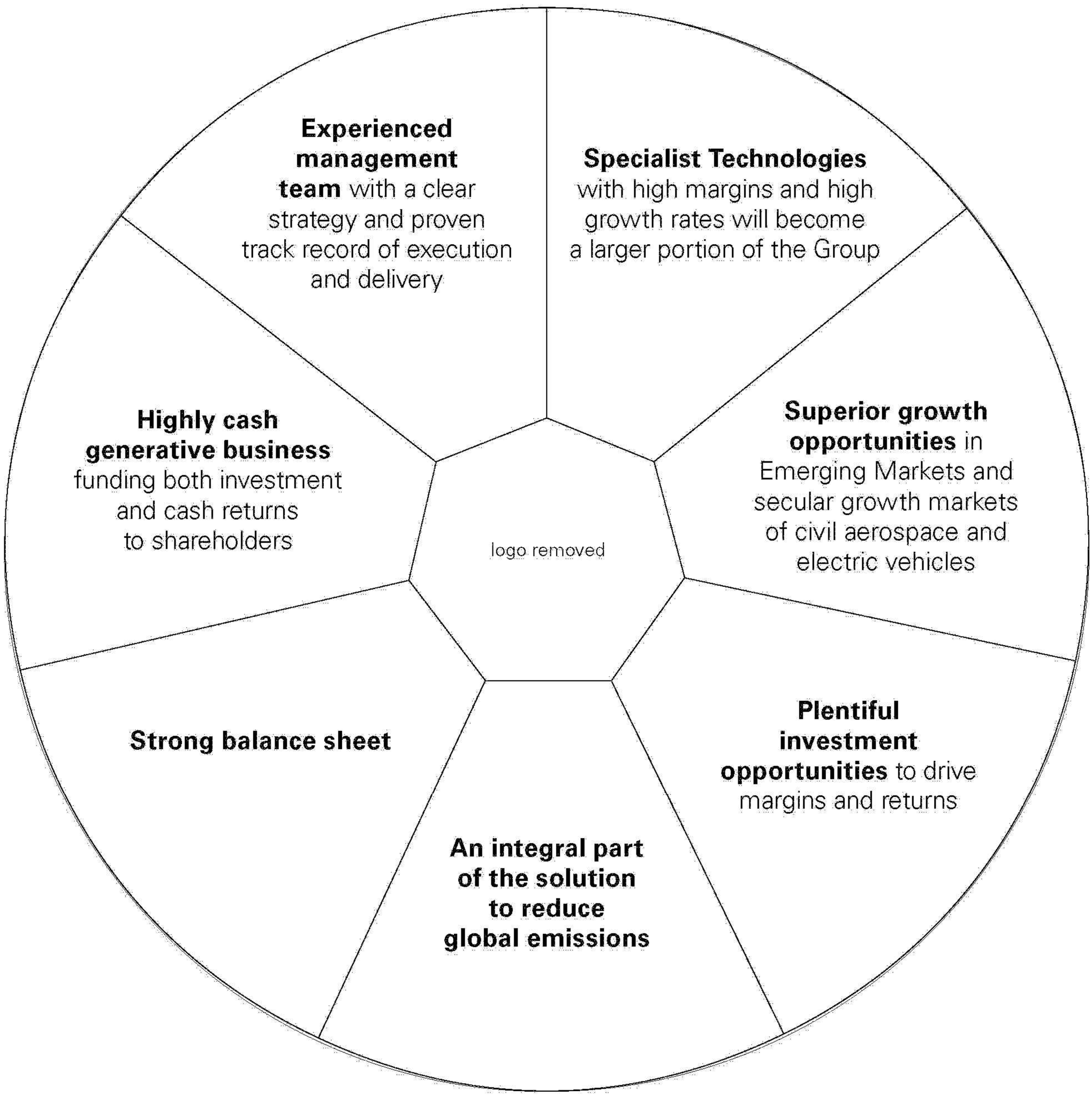
We provide expertise in heat treatment and specialist thermal processes across a wide variety of markets.

**Bodycote** is the world's number 1 service provider of heat treatment and specialist thermal processing

**Business is resilient in a downturn** due to a mixture of improvement in business quality, flexibility of the workforce, diversity of endmarkets and geographic spread

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

**Consistently strong margins** and excellent free cash flow generation



# Key investment strengths

Experienced management team with 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 on ESG and sustainability
- Investment in acquisitions and greenfield sites
- Strategy that can accommodate widely differing market outcomes

**c.£335m**
invested in capacity growth in last five years

**>£265m**
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 organic developed Classical Heat Treatment business

Image removed

**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 impact on climate change

Image removed

**Continued selected acquisitions**

- 5 key acquisitions in the last five years

Image removed

All on top of underlying Industrial Production growth

Image removed

# Chair's statement

Image removed

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

**D. Dayan**
Chair

## Introduction

The Group's good progress in 2022 was achieved amid another year of uncertainty, notably due to COVID-19 and the impact on energy prices of Russia's invasion of Ukraine. Prompt management actions taken on a local level across the business secured profitability amidst these challenges.

## Dividend

The Board is proposing a final dividend of 14.9p, an increase of 8%, which will be paid on 2 June 2023, subject to shareholder approval at the 2023 Annual General Meeting (AGM). This would bring the total ordinary dividend for 2022 to 21.3p (2021: 20.0p), a year-on-year increase of 7%, returning £40.6m to shareholders.

## Board and governance

As Chair of the Board, I continue to seek to maintain high governance standards. Appropriate corporate governance allows us to enhance the business performance that underpins the execution of our strategy. I am confident that the Bodycote Board remains well positioned to meet our governance duties.

This year we undertook significant work with both Senior Management and the Board to challenge the Group's strategy to ensure that it remains sustainable under various future scenarios. The robust strategy that management have put in place enables the Group to thrive in the face of challenges and volatility.

We took the opportunity throughout 2022 to continue educating the Board about ESG topics and were able to physically visit facilities again after the enforced pandemic break. This helps the Board to understand the markets and customers we address as well as to assess Bodycote's competitive position. Further to the Board visits, I took the opportunity to visit several of our facilities and see our strategy in action.

I was pleased to welcome Cynthia Gordon to the Board in June 2022 as another well-qualified member. Respecting and benefitting from the Directors' diverse backgrounds helps to make us stronger and more effective as a Board. We will continue to refresh the Board as Directors reach the end of their terms and we are committed to increasing the representation of women and ethnically diverse candidates over time.

Succession planning for our Executive Team is also one of the key responsibilities of the Board. I would like to take this opportunity to thank Dominique Yates, who has served as a Group Director and CFO since 2016 and will retire from the Board and the business in April 2023; his contributions have been much appreciated. I look forward to working with Ben Fidler, who has already joined the Group, and will assume Dominique's responsibilities.

## People

Our colleagues across the organisation continue to impress me; they deliver outstanding results and unmatched customer service in this industry. Our people live by our core values every day, respecting each other and our stakeholders to ensure we meet the needs of our customers. In this service business, Bodycote relies on its people at all levels, and we have outstanding colleagues who understand the business and are committed to exceptional performance. The Group places great importance on ensuring the safety and wellbeing for all Bodycote employees and performed strongly in this area during the year. The Board is highly engaged with business leaders and regularly receives business updates. The Board engaged with employees around the world on subjects pertinent to the business, including meetings with Employee Engagement Groups, reviewing the Group's strategy and supporting the enhanced programme to combat climate change.

## Sustainability

In 2022 Bodycote continued to strengthen its efforts to combat climate change. The Board is pleased that the Science Based Target initiative (SBTi) accepted our significant carbon emission reduction targets. Our commitment to sustainability underpins our strategy and is a key objective of the Executive Committee and the Board. Our progress is measured by metrics and an annual scorecard, which you can see in our Sustainability report page 35. We have set ambitious but realistic goals based on clear and specific projects identified by the leadership team and approved by the Board. We are on track to meet our commitments, supported by significant climate-related investments in 2023 and beyond.

## Shareholders

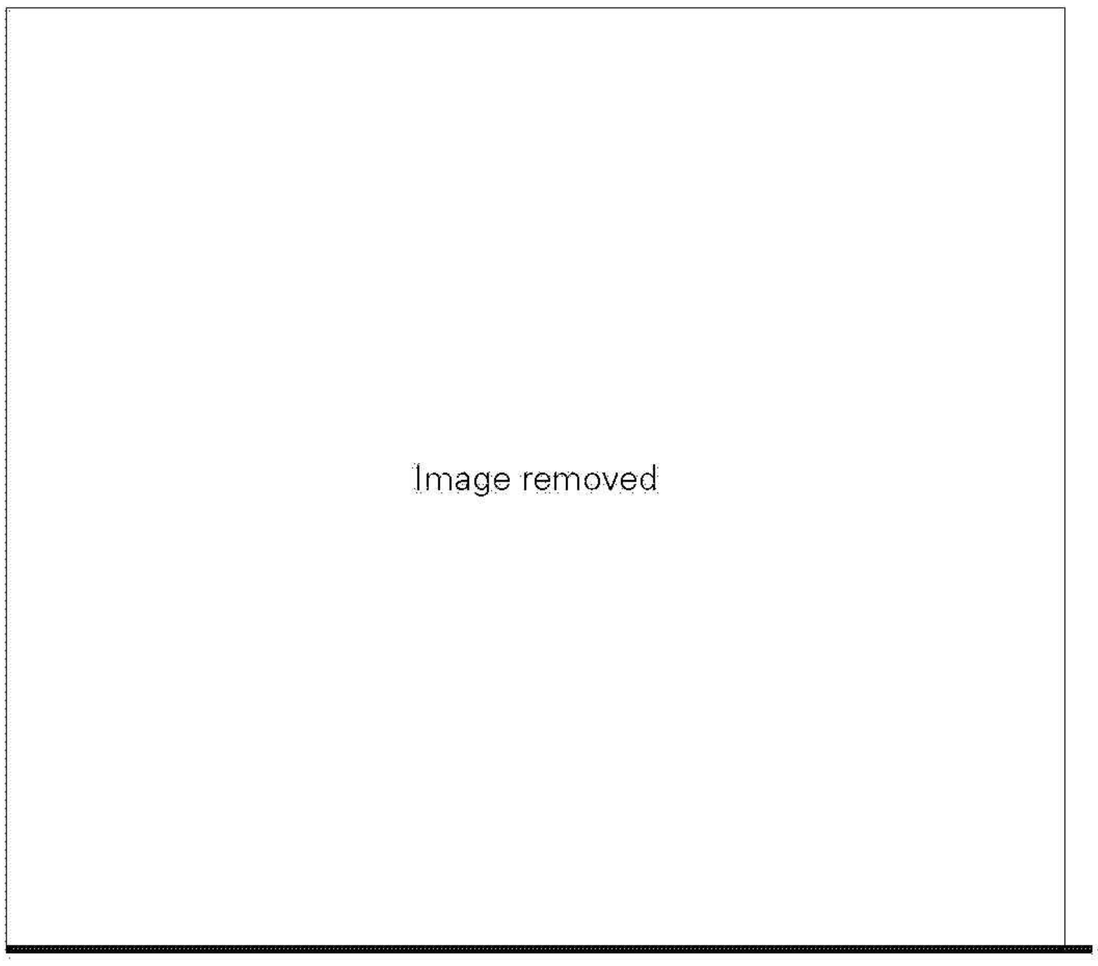
In 2022, I had the opportunity to meet and talk with many of our main shareholders. The Board appreciates their support and takes their views into account along with those of other stakeholders during our deliberations. I look forward to further opportunities to meet with shareholders in 2023.

## Summary

I am confident that Bodycote will continue to perform well and deliver value to our customers, shareholders and employees.

D. Dayan
Chair
17 March 2023

# Chief Executive's review




"We have seen strong growth in 2022 and looking into the future, the business has good prospects."

**S.C. Harris**
Group Chief Executive

## Full year commentary

### Overview

Group revenue increased 20.8% to £743.6m in 2022 (17.3% at constant currency). Given the high volatility of energy prices during the year, Bodycote took the step to pass through energy price increases at cost to our customers in the form of nil margin surcharges. After some delay at the start of 2022 this approach offset all of the energy price increases in the second half and boosted the Group's full year revenue by 7%. Underlying revenue growth was more than 10%, driven by our expansionary capital investment in recent years, reinvigorated sales and marketing efforts and favourable momentum in our target markets. This resulted in constant currency revenue growth (excluding surcharges) of 14% in Specialist Technologies, 16% in Emerging Markets and 19% in civil aerospace.

Headline operating profit increased 18% to £112.2m from £94.8m in 2021. Headline operating margin was 15.1% (2021: 15.4%). This small decline in reported margin was due to the dilutive impact of the energy surcharges. Adjusting for these, the underlying margin increased to 16.1% for the year.

Statutory operating profit increased from £83.8m to £102.0m.

The Group delivered free cash flow of £84.0m (2021: £105.0m), after a net working capital outflow of £25m, which was entirely due to higher trade receivables, driven by the high level of energy surcharges. The balance sheet remains healthy, with closing net debt excluding lease liabilities of £33.4m (2021: £51.9m).

Basic headline earnings per share for the Group increased by 19% to 42.7p (2021: 35.8p). Basic earnings per share were 38.6p (2021: 31.2p), reflecting the increase in statutory operating profit.

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

## Business focus

The Group's strategy is to focus on investing in and growing key areas of our business while improving the operating efficiency and quality of the remainder of the business. Targeted higher growth areas are the Specialist Technologies' business, the Emerging Markets' business and the secular growth markets of civil aerospace and electric vehicles. These higher growth markets now represent more than half of the Group's revenues and 62% of the Group's headline operating profit.

Specialist Technologies are differentiated, early-stage processes with high margins, large market opportunities and good growth prospects. In each of these technologies, Bodycote is either the clear market leader or one of the top players among few competitors and they address multiple market sectors. We continue to invest in these technologies organically, in terms of both capital and people, as well as through acquisitions. Specialist Technologies' revenues grew 18% in the year to £228m, with good growth momentum. The small HIP business acquired in late 2021 accounted for 4% of this growth. The impact of energy surcharges on these revenues was only 4%, as these are lower energy use technologies and also have the preponderance of the long-term agreements which defer price increases, typically by a year. Highlighting the strategic appeal of Specialist Technologies, organic volume growth again outperformed the Classical Heat Treatment business.

Emerging Markets revenues (comprising Eastern Europe, China and Mexico) grew 24% to £93m (13% of Group revenues). This strong result was achieved despite virtually no growth in our Chinese business as a result of pandemic-related lockdowns. General Industrial revenues' growth in these markets was strong once again, at 30%, and now represents more than a third of the Emerging Markets' overall turnover.

Investment in our Specialist Technologies and Emerging Markets businesses in the year included investments in North America in our HIP business, and additional capacity in our $S^3P$ and CiD businesses. We are also investing in new capacity in Eastern Europe to support electric vehicle production, as well as a new greenfield facility in China. We will break ground on another $S^3P$ facility to support further market expansion across Western Europe.

# Chief Executive's review continued

## Market sectors

**Aerospace & Defence** revenues were 18% higher than the prior year, driven by strong growth in civil aerospace revenues of 25%. Underlying civil aerospace growth excluding surcharges was 19%. Aircraft production, narrow body in particular, increased with 516 of the A320 family and 387 Boeing 737 Max aircraft produced in 2022 versus 483 and 260 respectively in 2021. Airbus has announced that they will ramp up production of A320s to 900 per annum by 2026, while Boeing plans to increase production of the 737 to 600 per annum in the same time frame. We have secured multiple new contracts to support the A320 neo programme. Moreover, according to IATA, Revenue Passenger kilometres are forecast to grow by more than 20% in 2023 as air travel in China recovers. This will result in increased aftermarket business.

**Automotive** revenues increased 7% in the year, to £184m. This increase in revenues was entirely accounted for by the impact of energy surcharges to recover energy cost inflation. Underlying revenue growth was slightly negative at –1%. Automotive sector production continued to be hampered by supply chain issues, and while these problems are now easing, the automotive OEMs appear to be reticent to ramp up production too much to meet the pent-up demand as a result of the current macroeconomic uncertainty. On the electric vehicle side, we are seeing considerable quotation activity with some significant long-term contracts signed. While electric vehicle related revenues are small today, this business is set to grow well as production ramps up over the coming years.

**General Industrial (including energy)** revenues increased 23% to £373m, with robust growth through the year in most market segments and across key geographies. Excluding surcharges, underlying growth was 14%, which was well above background market growth.

## Sustainability

Managing energy and reducing our impact on the planet has long been part of our corporate culture. Thermal processing, including heat treatment, enables products to be lighter, more efficient and longer lasting. Our inherently higher furnace utilisation and energy efficiency compared to manufacturers' in-house heat treatment facilities, helps drive our customers to outsource to Bodycote, in turn lowering the overall carbon footprint for industry (please refer to the case study on page 13). Moreover, our Specialist Technologies are lower emissions technologies. Consequently, encouraging accelerated conversion to these technologies also plays a role in reducing overall emissions. This increased attention and our commitment to SBTi is an opportunity to accelerate our efforts to combat climate change, while at the same time helping to drive growth.

I am pleased to report that Bodycote has set carbon reduction targets in conjunction with the SBTi, committing to an absolute reduction of 28% in carbon emissions by 2030. In 2022 our total $CO_2e$ emissions reduced by a further 6%. We have a structured programme of investment initiatives in carbon reduction programmes across the business and the pace of investment in 2023 will further accelerate. All of these carbon reduction initiatives also yield a financial payback. In total the carbon reduction programmes improve our returns on investment and lower our cost of energy, driving higher margins. Our reinvigorated sales and marketing campaigns aimed at reducing customers' carbon emissions (known as Scope 4 avoided carbon) help drive customers' outsourcing to us which in turn drives growth, higher returns on investment and higher margins. All of these factors are major positives for Bodycote and become more of a feature with higher energy prices and as more companies become cognisant of the need to reduce carbon emissions.

## Cost inflation management

Following on from last year, the Group saw inflationary pressure build through the year in key geographies, most notably in energy costs, which peaked during the second half. These have contributed to general inflation rates not seen for more than a generation.

Cost inflation principally impacts us through increases in energy prices (historically c.10% of revenues) and labour costs (c.40% of revenues). In this volatile inflationary environment, energy cost increases have been passed on through nil margin energy surcharges or contractual indexation in long-term agreements (LTAs). In contrast, labour inflation is addressed by price increases, including through contractual indexation. While we are now adjusting the energy surcharges monthly in most markets, price increases are typically annual and permanent, reflecting the frequency of pay awards in most of our markets. Contractual indexation normally lags cost impact by 6 to 12 months, but multiple customers have already accepted exceptional price increases outside of the contract terms.

The implementation of energy surcharges inevitably involved an initial shortfall which cost the Group £5m in the first half of the year. Despite energy costs peaking over the summer, energy cost inflation during the second half was fully recovered. Price increases have fully recovered the remainder of general inflation including wage increases and we expect this to continue.

## Summary and outlook

Bodycote's growth in 2022 was well above the background growth in our served markets, augmented by investment over the last several years in the higher growth markets of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles, which now represent more than half of the Group's revenue and 62% of headline operating profit.

A key achievement has been the recovery of energy cost increases through surcharges and the full recovery of other inflation through permanent price increases.

Headline EPS increased by 19%, reflecting the strong growth and the focus on operational efficiency.

While there are near-term macroeconomic uncertainties, we expect underlying volume to continue to grow ahead of the background markets, and margins are expected to expand as surcharges moderate.

Beyond 2023, we expect robust growth, leading to further margin expansion. Civil Aerospace will benefit from higher OEM build rates and increasing airline flying hours, and our investments in Emerging Markets and Specialist Technologies will drive higher growth in these areas.

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

S.C. Harris
Group Chief Executive
17 March 2023

# Helping our customers reduce emissions – Scope 4 (Avoided Emissions)

## Case study: a real world example

By collaborating with one of our Scandinavian customers, Bodycote identified the opportunity to reduce their overall carbon footprint, outsourcing their work to us. Our process engineers worked with the customer to pinpoint the major contributors to their carbon footprint for the specified components. Through many years of monitoring and analysing consumption in relation to processes and customer specifications, Bodycote engineers have gained considerable expertise in reducing $CO_2$ emissions. Working with this customer to understand how they managed their in-house thermal processing, Bodycote engineers were able to propose a complete process optimisation.

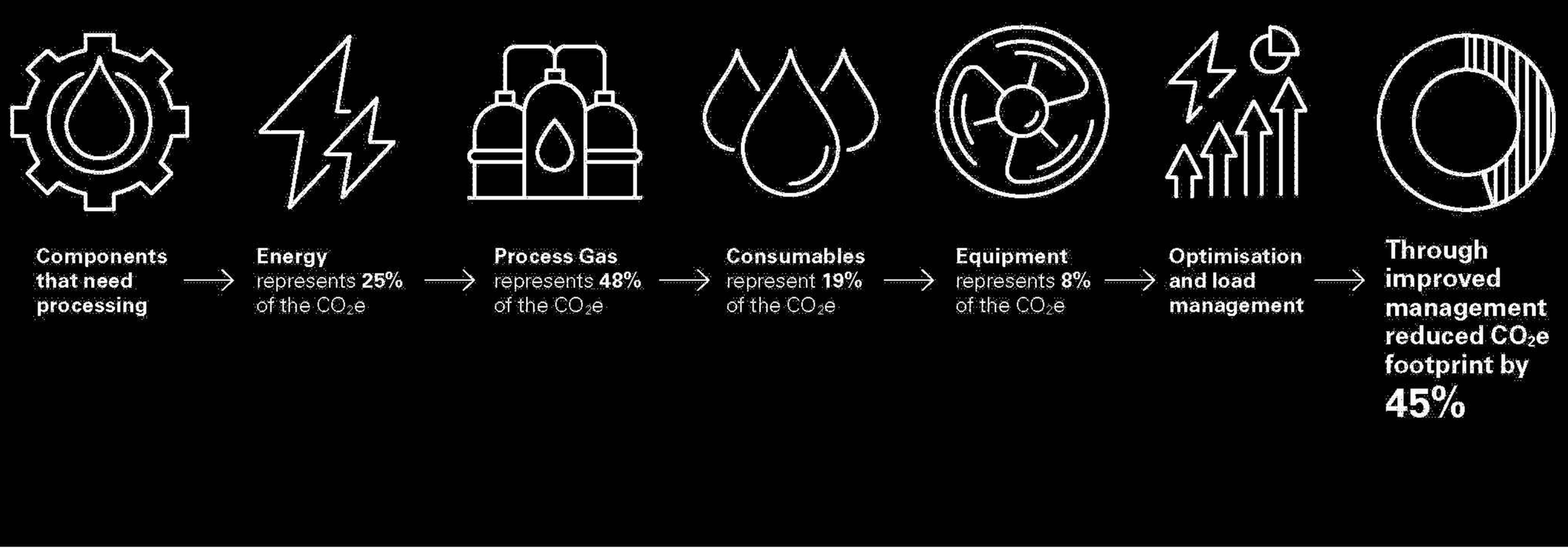
For most components, the largest contributor to the carbon footprint is the energy used to power the production line, including the energy input to the components themselves; this can range from 15% to 80% of the overall carbon footprint. Through optimisations and load management, specifically as an aggregator of different customers' work, our processes typically run with higher throughput and, therefore, less wasted energy and less hot idle time. In this specific case, energy input to the production line contributed approximately 25% to the emissions of the overall component carbon footprint. Optimising the energy input was addressed in the load management and utilisation of the production line for this customer.

Bodycote engineers are familiar with many customers who run inefficiently by oversupplying process gases. Bodycote recognises that a great deal of leverage can be applied to optimise the $CO_2$ emissions caused by process gases. Due to these inefficiencies, process gas can represent up to 70% of the carbon footprint. For this specific case, it represented 48%. By studying the needs of this customer's components, Bodycote reduced $CO_2$ emissions from excess process gas by a third.

Based on the Bodycote optimisation model, we are able to reduce this customer's $CO_2$ footprint for consumables and equipment as well. Our experience and depth of knowledge about our customers allowed us to maximise the offering to this customer to avoid unnecessary energy input, process gas volumes, and wasted energy during hot idle. The cumulative process optimisations, whilst maintaining all specifications, enabled Bodycote to reduce the carbon footprint of this customer's components by over 45%.

Image removed

**Avoiding emissions is imperative to reduce the impact on climate change. Thermal processing is used by virtually every company that uses metal in its products, and often this is a company's most significant contribution to carbon emissions. Bodycote has the inherent capability through aggregation of different customers' work, as well as applying our expertise and know-how to dramatically reduce carbon emissions from thermal processing work of companies manufacturing items that use metal. As a result, Bodycote has a major role in avoiding emissions and reducing industry's negative impact on the climate.**



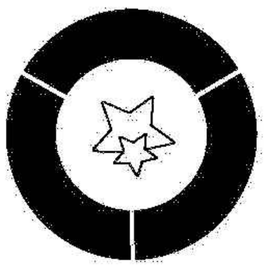
# Strategy and objectives

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 with our customers in rapid growth countries with an emphasis on 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 focuses on ensuring 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 collaborate 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.

### 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

– Our people make the difference in the service we provide. With the best metallurgists, engineers and technicians in the industry, Bodycote is ideally placed to provide solutions for customers, whatever their market or wherever in the world they may be.

See managing our people on pages 35-38

### Scale and investment

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

See Chief Executive's review on pages 11-12

## …utilising our strategic competitive advantages…

### 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

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

See our customer component journeys throughout the Strategic report

## …and focusing 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 facilities and expertise mean that projects can enhance/extend beyond customers' in-house capabilities, combining identification and provision of technical solutions to deliver value-adding material properties with a lower environmental impact on climate change, 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.

## …creating 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
– Ideally positioned to promote growth in Emerging Markets and selected technologies

**For our investors**

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

# Measuring progress
# **Our key performance indicators**

Graphic removed

## Performance

Return on capital employed increased by 1.3 percentage points during the year, up from 12.0% to 13.3%.

## 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).

Graphic removed

## Performance

Headline earnings per share increased by 6.9p (19%) from 35.8p to 42.7p.

## Definition

Headline earnings per share is defined on page 146.

Graphic removed

## Performance

Headline operating margin decreased by 0.3 percentage points during the year, from 15.4% to 15.1%. Headline operating profit increased by 18% from £94.8m to £112.2m, while revenue increased by 21% from £615.8m to £743.6m.

## Definition

Headline operating profit as a percentage of revenue.

1 Defined on page 146.

Graphic removed

## Performance

Free cash flow for the Group was £84.0m (2021: £105.0m). This was 75% of headline operating profit (2021: 111%).

## Definition

Free cash flow is defined on page 146.

Graphic removed

## Performance

Bodycote works tirelessly 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 TRC rate decreased to 2.5 this year (2021: 2.9). Further details are included in the Sustainability section on page 35.

## Definition

TRC is defined as the number of lost time incidents, restricted work cases and medical treatment cases x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

Graphic removed

## Performance

The carbon footprint, total global $CO_2e$ emissions, decreased by 6% from 271.9 to 255.4 $ktCO_2e$. Further details are included in the Sustainability section.

## Definition

Carbon footprint is defined as the kilotonnes of $CO_2$ equivalent emissions. $CO_2$ equivalent emissions are calculated by taking electricity and fuel consumption data in kilowatt hours and multiplying by relevant conversion factors.

1 Normalised statistics restate sales figures using closing exchange rates from December 2022.

# Our stakeholders
# How and why we engage

## Investors

### Engagement undertaken

- Annual Report and Accounts/Annual General Meeting
- Corporate website, including investor relations section
- Results presentations and regular engagement with top shareholders
- Meetings throughout the year with existing and prospective shareholders
- Meetings throughout the year with existing and prospective banking partners
- Press releases (including regulatory announcements)
- Addressing regular analysts' enquiries

### 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 have a good understanding of our strategy and performance.

### Stakeholders' key interests

- Financial performance and economic/political impact
- Capital allocations and dividends
- Sustainability and climate change
- Mergers and acquisitions
- Health and safety performance
- Alignment of shareholder and management interests
- Governance and transparency
- Sustainability of performance

## Employees

### Engagement undertaken

- Annual individual performance reviews
- Works councils and their representatives
- Employee Engagement Groups
- Internal intranet and communications, suggestion boxes and grievance mechanisms
- Annual Report and Accounts
- Environment, health and safety briefings and trainings
- Social media communications

### 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 are delivering to their expectations and making the right business decisions. This helps us to retain and develop the best talent.

### Stakeholders' key interests

- Wages, benefits and social packages
- Employee development/engagement
- Reputation
- Talent retention/career opportunities
- Training opportunities
- Safety performance
- Diversity and inclusion
- Sustainability

## Customers

### Engagement undertaken

- Management of ongoing customer relationships
- Participation in industry forums/events
- Full customer marketing communication programme including utilisation of the corporate website
- Engaging with our customers helps us to understand their needs and identify opportunities and challenges

### Reason for engagement

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

### Stakeholders' key interests

- Customer satisfaction
- Commitment to ESG
- Helping customers meet carbon reduction commitments
- Service performance, efficiency and quality
- Sustainable performance
- Supply chain transparency

## Society/Communities

### Engagement undertaken

- Individual employee volunteering
- Corporate website
- Local site community activities
- Employee engagement programmes involving families

### 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.

### Stakeholders' key interests

- Local employment
- Future talent pipeline
- Local operational impact
- Environmental impact
- Safety, health and environmental performance

# A component journey
# **Catching the waves**

Inspired by the pumping principles of the human heart, next-generation wave energy converters are a valuable renewable energy technology, offering five times more energy per tonne than previously known technologies. Bodycote's proprietary Corr-I-Dur® treatment is used to protect multiple important converter components against the harshest marine conditions ensuring corrosion resistance and durability. In this journey, we will look at the cylinder – a core component of the converter system.

Image removed

The cylinders start life as solid high strength steel rods.

Image removed

The solid steel rods are machined into hollow cylinders.

Image removed

The cylinders are machined to their final shape.

Image removed

**B**

The cylinders are stress relieved to eliminate any residual stresses in the steel acquired during machining, preventing material failures during subsequent manufacturing stages.

Image removed

**B**

The cylinders are treated with Bodycote's thermochemical Corr-I-Dur® treatment to improve corrosion resistance, durability and wear properties by generating a protective iron nitride-oxide compound layer.

Image removed

When the cylinders are assembled they are integrated into the Wave Energy Converter.

Image removed

The treated cylinders (note the black finish from the Corr-I-Dur® treatment) begin their final assembly.

Image removed

End application:
**Offshore wave energy converter array.**

Photos for non-Bodycote steps courtesy of CorPower Ocean.

**B** The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied.

# Compliance with Directors' duties Section 172 statement

## Strategy

At every Board meeting the Directors review, with the management team, the progress against strategic priorities and the changing shape of the business portfolio. This collaborative approach by the Board, together with the Board's approval of the Company strategy, helps it to promote the long-term success of the Group. Ultimately Board decisions are taken against the backdrop of what it considers to be in the best interest of the long-term financial success of the Company and the Group's stakeholders, including investors, employees, customers and society. The Company's strong underlying financial position enables us to pursue new opportunities for the Group within our disciplined financial framework.

Carbon emission reduction targets, to reduce our Scope 1 and 2 carbon emissions by 28% by 2030, were agreed and accepted as well as published by the Science Based Target initiative (SBTi).

## Performance

The Board regularly reviews and monitors the Group's safety, reliability and environmental performance, with the aim of continually making Bodycote safer for our entire workforce and minimising our impact on climate change.

In 2022 a recordable injury frequency rate of 2.52 was achieved versus 2.90 in 2021. The number of recordable injuries fell 18% versus 2018 and 8% versus 2021. 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 also focuses on maintaining financial discipline and delivering strong earnings, cash flow and returns to shareholders.

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

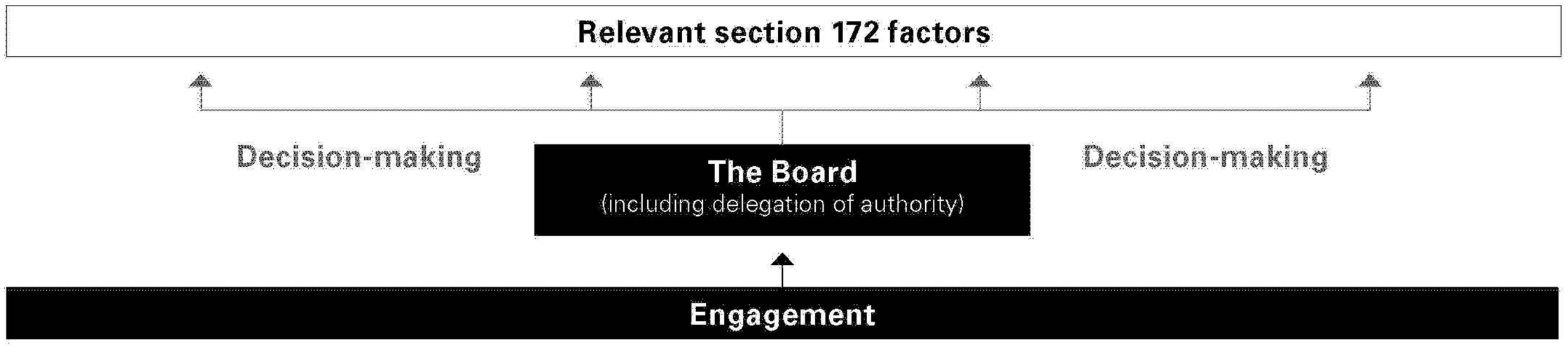
## People

Bodycote's workforce is key to its 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.

Bodycote operates Employee Engagement Groups twice a year which are chaired by a Non-Executive Director. The feedback from these forums is reported to the Board and the Executive Directors charged with addressing any particular items that arise. In 2022 these forums were held virtually. Feedback was generally very positive and no material concerns were expressed by employees during the year.

## Governance

The Board believes that strong governance is essential to the success of the Company. The Board regularly commissions the external evaluation of its performance, which most recently took place in 2021. In 2022 an internal evaluation took place. The Board discussed the findings of this review and recommendations, such as reviewing the strategy in depth including climate change, ESG and focusing on people and succession, have been implemented. The governance framework continues to drive the highest levels of business standards and best practices, aligning these with Bodycote's business purpose, values, strategy and culture. The Board will continue to assess and monitor culture and will look to obtain useful insight through effective dialogue with our key stakeholders, taking feedback into account in the Board's decision-making process.




## Investors

Capital is rewarded through dividends and share price increases. Our investment proposition builds upon our strengths to create value for shareholders. We communicate progress on our financial and non-financial plans in order to cultivate the support of our investors, analysts, banks and proxy voting agencies.

**£39m**

**in dividends**

## Employees

The knowledge, expertise and skill 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.

**£277m**

**in staff costs**

## Customers

Our services are provided to the aerospace, defence, energy, automotive and general industrial markets. We work closely with our customers to understand their evolving needs so we can continually improve and adapt to meet them.

**>40,000**

**customers worldwide**

## Society/Communities

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

We consult through our plant network to 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 the 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. Further information about how these duties have been applied can be found throughout the Annual Report.

Image removed

| Section 172 duties | Key examples | Page |
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| **Maintaining high standards of business conduct** | Sustainability report | 35-45 |
| | Corporate governance statement | 48 |
| **Acting fairly between members** | Shareholder engagement | 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 tend to think and operate globally. Our AGI business focuses on automotive and general industrial customers. These include many multinational companies that tend to operate on a regionally focused basis and numerous medium-sized and smaller businesses, all of which are important to Bodycote. Much of the AGI business is locally oriented.

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

## The ADE business

Image removed

Graphic removed

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

Within ADE, we have more than 55 facilities around the world.

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

Revenue in 2022 was £312.7m, an increase of 20% (27% at actual rates). On an organic basis, revenues increased 17% (24% at actual rates) with strong growth in Civil Aerospace and General Industrial (including energy) revenues.

Headline operating profit increased to £50.8m (2021: £44.2m), and headline operating margin declined to 16.2% (2021: 18.0%), reflecting the dilution from energy surcharges, as well as temporary dilution from the acquisition of a small HIP business in December 2021. Statutory operating profit increased to £44.0m (2021: £32.8m).

Expansionary capital expenditure was £8.0m, with significant investment in capacity growth for the North American Specialist Technology business.

Return on capital employed increased to 11.9% (2021: 10.8%) as a result of the improved profitability.

**Geography**

| | |
|---|---|
| North America | **168.6** |
| Western Europe | **137.1** |
| Emerging Markets | **7.0** |
| **Total** | **312.7** |

# The AGI business

Image removed

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

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

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

Revenue was £430.9m, an increase of 15% on the prior year (16% at actual rates), entirely reflecting the impact of price increases and energy surcharges to offset general and energy cost inflation.

Headline operating profit was £80.8m (2021: £69.5m), and headline operating margin was stable at 18.7% (2021: 18.8%), despite the dilution from energy surcharges. Statutory operating profit increased to £78.2m (2021: £65.3m).

We spent £12.8m on expansionary capital expenditure, with ongoing expansion in Emerging Markets, particularly in Eastern Europe. Work has also begun on a new facility in China.

Return on capital employed increased to 18.2% (2021: 15.9%), mainly reflecting the increased profitability.

Graphic removed

**Geography**

| | |
|---|---|
| North America | **103.0** |
| Western Europe | **241.6** |
| Emerging Markets | **86.3** |
| **Total** | **430.9** |

# A component journey
# **Tight seal**

Honeycomb is one of the strongest structures occurring in nature. Within an aircraft engine, optimum gas flow and prevention of leakage is of vital importance for combustion. An effective seal is achieved by brazing lightweight, yet strong, metallic honeycomb structures to create a gas-tight seal between the rotating ceramic-tipped turbine blades and the engine housing. The first time the engine is started, the blades cut into the sacrificial honeycomb, which wears in-situ to form a gas-tight seal, thereby improving engine efficiency, fuel economy and extending the service life of critical engine components.

Image removed

The honeycomb seal begins life as two separate components - pre-annealed steel forgings to create the steel outer ring, and strips of nickel-based superalloy for the honeycomb.

Image removed

The outer ring is stress-relieved prior to being joined with the honeycomb, to prevent unexpected distortion of the ring.

Image removed

The honeycomb is assembled to the ring and then vacuum brazed onto the outer steel ring in a vacuum furnace and simultaneously solution annealed.

Image removed

The honeycomb is formed into the honeycomb shape by spot welding to create the desired length, width and height.

Image removed

The honeycomb ring seals are visually inspected under the microscope to check conformity.

Image removed

Finally, the seals are precipitation hardened to increase strength and mechanical properties ready for use in the engine.

Image removed

End application:
**Aircraft engine**

The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied.

# Chief Financial Officer's report

Image removed

"Free cash flow was £84m – the Group continues its great track record of converting profits into cash despite the unusual working capital outflow associated with higher revenue from the introduction of energy surcharges."

**D. Yates**
Chief Financial Officer

## Financial overview

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Revenue** | **743.6** | 615.8 |
| **Headline operating profit** | **112.2** | 94.8 |
| Amortisation of acquired intangible assets | **(9.3)** | (10.3) |
| Acquisition costs | **(0.9)** | (0.7) |
| Exceptional items | **–** | – |
| **Operating profit** | **102.0** | 83.8 |
| Net finance charge | **(6.7)** | (6.3) |
| **Profit before taxation** | **95.3** | 77.5 |
| Taxation charge | **(21.0)** | (17.5) |
| Profit for the year | **74.3** | 60.0 |

Group revenue was £743.6m, representing an increase of 20.8% at actual exchange rates, and 17.3% at constant currency.

Headline operating profit for the year increased by 18.4% to £112.2m (2021: £94.8m). The Group successfully passed on inflationary impacts to its customers during the year through price increases and energy surcharges. Consequently, with these feeding through into higher revenues, headline operating margin of 15.1% experienced a small decline compared with the prior year (2021: 15.4%). Statutory operating profit increased to £102.0m (2021: £83.8m), as a result of the increased headline operating profit.

# Chief Financial Officer's report continued

## Finance charge

The net finance charge was £6.7m (2021: £6.3m), analysed in the table below.

| | **2022 £m** | 2021 £m |
|---|---|---|
| Interest on loans and bank overdrafts | **(2.3)** | (1.3) |
| Interest charges | **(1.8)** | (2.0) |
| Financing and bank charges | **(3.0)** | (3.3) |
| **Total finance charge** | **(7.1)** | (6.6) |
| Interest received | **0.4** | 0.3 |
| **Net finance charge** | **(6.7)** | (6.3) |

As at 31 December 2022, the Group's £250.9m Revolving Credit Facility was drawn by £69.6m (2021: £90.3m), leaving headroom of £181.3m (2021: £160.6m). The facility has a remaining life of 4.4 years.

## Profit before taxation

| | **2022 £m** | 2021 £m |
|---|---|---|
| Headline profit before taxation | **105.5** | 88.5 |
| Amortisation of acquired intangibles | **(9.3)** | (10.3) |
| Acquisition costs | **(0.9)** | (0.7) |
| Exceptional items | **–** | – |
| Profit before taxation | **95.3** | 77.5 |

The statutory profit before taxation in the year increased to £95.3m (2021: £77.5m) while headline profit before tax increased to £105.5m (2021: £88.5m).

## Taxation

The tax charge for the year was £21.0m (2021: £17.5m). The headline tax rate for the Group was 22.3% (2021: 22.3%), being stated before accounting for amortisation of acquired intangibles, acquisition costs and exceptional items. This is in line with guidance given to the market during the year. The Group's overall tax rate reflects the blended average of the tax rates in the jurisdictions around the world in which the Group trades and generates profit.

The effective statutory tax rate was 22.1% (2021: 22.6%). Provisions of £28.1m (2021: £24.0m) are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Refer to note 6 to the consolidated financial statements for more information.

The OECD Pillar II proposals for a global minimum tax rate are expected to be applicable from 1 January 2024. The impact of the proposed changes on the Group is currently under review.

## Earnings per share

Basic headline earnings per share rose 19% to 42.7p (2021: 35.8p) as a result of the higher headline operating profit. Basic earnings per share for the year increased to 38.6p (2021: 31.2p).

| | **2022 £m** | 2021 £m |
|---|---|---|
| Profit before taxation | **95.3** | 77.5 |
| Taxation charge | **(21.0)** | (17.5) |
| Profit for the year | **74.3** | 60.0 |
| Basic headline EPS | **42.7p** | 35.8p |
| Basic EPS | **38.6p** | 31.2p |

## Return on capital employed

Return on capital employed rose in the year to 13.3% from 12.0% in 2021. The increase mainly reflects the improvement in the Group's headline operating profit. The Group continues to exert strong financial discipline over capital expenditure projects in order to target strong returns.

## Cash flow

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Headline operating profit** | **112.2** | 94.8 |
| Depreciation and amortisation | **74.9** | 73.4 |
| Other, including impairment and profit on disposal of PPE | **3.0** | 0.3 |
| **Headline EBITDA[1]** | **190.1** | 168.5 |
| Net maintenance capital expenditure | **(52.2)** | (43.1) |
| Net working capital movement | **(25.3)** | (3.4) |
| **Headline operating cash flow** | **112.6** | 122.0 |
| Restructuring | **(7.4)** | (2.3) |
| Financing costs, net | **(5.8)** | (5.2) |
| Tax | **(15.4)** | (9.5) |
| **Free cash flow** | **84.0** | 105.0 |
| Expansionary capital expenditure | **(22.1)** | (15.6) |
| Ordinary dividend | **(38.5)** | (49.0) |
| Acquisition spend | **(0.9)** | (65.4) |
| Own shares purchased less SBP and others | **1.7** | 4.7 |
| **Increase/(reduction) in net cash** | **24.2** | (20.3) |
| Opening net debt | **(116.4)** | (98.1) |
| Foreign exchange movements | **(7.2)** | 2.0 |
| **Closing net debt** | **(99.4)** | (116.4) |
| IFRS 16 lease liabilities | **66.0** | 64.5 |
| **Net debt excluding lease liabilities** | **(33.4)** | (51.9) |

1 Refer to page 147 of the Annual Report for a reconciliation of operating profit to Headline EBITDA.

Net debt (excluding lease liabilities) reduced by £18.5m to £33.4m after the payment of £38.5m of ordinary dividends during the year. The Group's headline operating cash flow fell to £112.6m (2021: £122.0m), primarily as a result of higher working capital from increased trade receivables from the energy surcharges and price increases. Nonetheless, this still represents a healthy headline operating cash flow conversion of 100% (2021: 129%). The statutory measure of net cash from operating activities fell to £142.9m (2021: £144.3m). Free cash flow was also impacted by the higher level of working capital, but remained strong at £84.0m (2021: £105.0m), with free cash flow conversion of 75% (2021: 111%). Net debt (including lease liabilities) was £99.4m (2021: £116.4m), with well over 80% of the Group's outstanding lease liabilities relating to operational property leases.

## Expansionary capital expenditure and acquisitions

The Group invested £22.1m (2021: £15.6m) in expansionary projects, mainly related to the completion of a new AGI facility in North America and ongoing expansion activities in our North American HIP business as well as further investment in China. The new North American AGI plant has facilitated some of the recent restructuring activities undertaken, which, in turn, have improved the overall quality and offering of our operations.

The Group remains committed to invest in maintaining its assets to the highest standards of quality and safety.

## Dividend and dividend policy

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

In line with this policy, the Board has recommended a final ordinary dividend of 14.9p (2021: 13.8p), bringing the total ordinary dividend to 21.3p (2021: 20.0p). The interim dividend of 6.4p, approved by the Board on 27 July 2022, was paid on 4 November 2022 to shareholders on the register at the close of business on 7 October 2022. The final ordinary dividend will be paid on 2 June 2023 to shareholders on the register at the close of business on 21 April 2023.

## Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, and leases. The Group's funding policy aims to ensure continuity of financing at a reasonable cost, based on committed and uncommitted facilities and loans to be procured from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding. At 31 December 2022, the facility was drawn as follows:

| Facility | Expiry date | Facility £m | Facility utilisation £m | Facility headroom £m |
|---|---|---|---|---|
| £250.9m Revolving Credit | 27 May 2027 | 250.9 | 69.6 | 181.3 |

During the year, the Group extended its £250.9m Revolving Credit Facility by one year and this will now expire in May 2027. The transition from IBOR has been successfully completed with no material impact on the Group.

## Alternative performance measures

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow, 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 146.

## Going concern

As described on page 96 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 current and 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.

D. Yates
Chief Financial Officer
17 March 2023

# Principal risks and uncertainties

The Board is responsible for the Group's risk management and determining the Group's risk appetite. The review of financial risk has been delegated to the Audit Committee. Senior Management has taken ownership of specific business risks. Each risk is evaluated based on its likelihood of occurrence and severity of impact on our strategy. Then, risks are 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 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 in December. The Board is satisfied that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2022 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.

The impact of COVID-19 has reduced significantly in 2022 compared to 2021, following the successful roll- out of vaccination programmes worldwide. Many countries have eliminated travel restrictions or isolation measures.

The rise in inflation and energy costs have been major issues globally throughout 2022, and we expect these to continue to impact in 2023. There have also been concerns about the continuity of supply of natural gas during the year, particularly once Russia cut off supply via the Nord Stream 1 pipeline. These concerns have diminished over recent months, as European countries have successfully built up reserves and have taken steps to reduce consumption, aided significantly by mild weather to date. Some countries have introduced energy price caps or other state aid programmes. In the meantime, work progresses on several large projects in Europe to increase the import capacity for liquefied natural gas. The risk of potential supply disruption has consequently diminished significantly in recent months.

## Climate risk

Bodycote recognises the importance of considering climate risks and opportunities in our business decisions. Our climate change risk is managed closely by Group management reporting to the Chief Executive who provides regular reports to the Board. We also acknowledge the role of the Task Force on Climate-related Financial Disclosures (TCFD) in supporting the transition to a low-carbon economy. Our disclosures contained within the Sustainability report on page 42 demonstrate how we are managing our climate impact and how the Group is evolving in response to the risks and opportunities arising. Given the importance of the continued effects of climate change on the Group's emerging risk profile and the wider impacts of both physical and transitional risk in 2021 the Group refocused its previous environmental, social and governance risk to climate change risk.

## 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, including those 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.

As in previous years, in 2022 each division was requested to identify emerging risks for consideration and these were subsequently reviewed by the Group's Executive Committee and the Board. No additional emerging risks were identified through this process.

These emerging risks are:

- The acceleration in the transition to electric vehicles (EV) away from internal combustion engines. Whilst the mix of components in EVs are different than for internal combustion engines, the type and number of components that Bodycote treats remain largely unchanged. Furthermore, Bodycote is very well positioned to service these EV components and has started to position itself as the supplier of choice to EV manufacturers and OEMs. We have a very strong market position in the technologies that are more favoured in the production of EVs.
- Continued environmental activism, as well as increased focus from both regulators and the investment community around climate change, has started to influence customers to reduce their carbon footprints. There is the potential that this could start to impact some of the sectors Bodycote operates in, such as civil aerospace. It also presents opportunities for the Group as Bodycote tends to have higher furnace fill rates than captive 'in house' processes. This leads to lower energy consumption and emissions per component treated, providing overall carbon emissions reduction opportunities. Customers, therefore, have greater incentive to outsource their heat treatment activities to Bodycote.
- Greater geopolitical risk, with the war in Ukraine, increased international tensions, more general tariffs and other barriers to international trade. If countries pursue aggressive trade barriers that reduce the movement of goods this could result in customers shortening their supply chains and moving these closer to their main production locations. Bodycote sites tend to be located in close proximity to our customers' production locations.
- The COVID-19 pandemic, as well as the potential future pandemics, including the long-term effects for which the full impacts are still not known. The pervasive impact of COVID-19 on the Group has been reflected throughout the identified risks.

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 trend rating sets out the direction of change from 2021. Also refer to our Strategy and objectives on page 14.

| Risk description | Risk rating | Mitigation and control | Relevance to strategy |
|---|---|---|---|
| **Market and customer risks** | | | |
| **Markets**<br>Bodycote operates in 22 countries. Changes in 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.<br>Cost inflation and increases in energy prices, if not passed on to customers, also present a risk to the Group's profitability. | **Stable**<br>The impact of COVID-19 has reduced significantly in 2022 compared to 2021, following the successful roll-out of vaccination programmes worldwide.<br>In 2022, the civil aerospace market has rebounded from the COVID-19 pandemic; however, supply chain issues caused by the pandemic are still being felt, most obviously impacting automotive production.<br>Many countries have reduced or eliminated travel restrictions or isolation measures.<br>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. The emergence of higher levels of cost inflation in 2022, most notably the significant increase in energy prices, would reduce the Group's profitability if it could not be successfully passed on. | – 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.<br>– Bodycote has demonstrated the ability to manage its costs in response to revenue shocks, protecting profitability and returns.<br>– Restructuring activities in prior years have been aimed at adapting the Group's facilities footprint to respond to trends in end markets and have been successful. Bodycote has a long track record of passing on cost inflation to its customers via price increases and surcharges and has acted quickly during 2022 to ensure that the surge in cost inflation is offset by price increases to our customers. | 1 2 3 4 5 |
| **Competitor action**<br>The threat of new and existing competitors into one or more of the Group's Specialist Technologies. | **Stable**<br>A number of small and mid-sized HIP furnaces have been installed by competitors, but investment in large HIP furnaces, where Bodycote has a very strong market position, has been limited to date.<br>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.<br>– Expansion in the Group's offerings to maintain the position as supplier of choice.<br>– A focus on customer service to ensure that satisfied customers have no cause to seek alternative suppliers.<br>– There are high financial barriers to entry. | 2 |

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

# Principal risks and uncertainties continued

| Risk description | Risk rating | Mitigation and control | Relevance to strategy |
|---|---|---|---|
| **Corporate and community risks** | | | |
| **Safety and health**<br><br>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.<br><br>As well as the obvious increase in risk to the health of our employees, although the impact of COVID-19 has reduced significantly in 2022 compared to 2021, there still remains a greater risk of potential working time loss as a result of an increase in sick days or prevention measures employees may have to undergo. | **Stable**<br><br>Bodycote is committed to providing a safe work environment for its employees. | – Group-wide health and safety policies developed by the Group Head of Safety, Health and Environment (SHE), and approved by the Chief Executive.<br>– OHSAS 18001 and ISO 14001 compliant SHE management systems being used by the Group Head of SHE with support of divisional safety, health and environmental teams.<br>– Programme in place to focus on reduction of incidents which could have a high impact.<br>– Safety compliance audits at all plants at least every two years.<br>– The impact of COVID-19 pandemic-related restrictions on the Group's operations has greatly diminished during the year. | 1 |
| **Environment** | | | |
| **Climate change**<br><br>Thermal processing by its very nature consumes a significant amount of energy. There is a risk that we do not adapt competitively to requirements for lower emissions and that we do not properly anticipate the impact of climate change to ensure that the Group's operations are sustainable.<br><br>In addition, actual or potential environmental contamination in any of our facilities could lead to health risks, disruption of business, financial costs and loss of reputation. | **Increasing**<br><br>Climate change risk is increasing and has become a focus of interest to the investment community and Bodycote stakeholders specifically, seeking to understand how we manage environmental impact, including carbon management.<br><br>Extreme weather events are unlikely to materially impact our operations. Materiality is assessed on a case-by-case basis and is considered to be the threshold when an issue becomes sufficiently important that it could significantly impact our strategy. | – We manage, measure and report our climate-related impacts and risks and opportunities through our principal risk reviews and the TCFD model as described on pages 42 to 44.<br>– The Risk and Sustainability Committee oversees the strategy and action plans to reduce our carbon footprint.<br>– Environmental procedures and measures in place conforming to ISO 14001.<br>– Remediation of contaminated sites or additional emissions abatements. | 1 |

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

| Risk description | Risk rating | Mitigation and control | Relevance to strategy |
|---|---|---|---|
| **Operational risks** | | | |
| **Service quality**<br>The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.<br>There is a risk that Bodycote fails to meet the needs of customers in terms of quality, delivery, innovation and problem solving. | **Stable**<br>The risk of poor quality or service levels can cause serious long-term damage to Bodycote's reputation with financial consequences such as the loss of a customer and the cost of damages or litigation. | – Bodycote has stringent quality systems in place managed by qualified staff.<br>– Quality systems and processes operated at plant level with oversight by divisional quality teams.<br>– Where necessary, plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and IATF 16949.<br>– Each facility has regular audits by quality staff, accreditation bodies and customers. | 5 |
| **Contract review**<br>There is risk that parts are not treated according to contractually agreed specification or additional customers' amendments. | **Stable**<br>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.<br>– Bodycote carefully negotiates terms and conditions associated with the supply of services to its customers, carefully managing potential liabilities.<br>– Certain potential damages resulting from this risk are fully or partially covered through the Group's various insurance policies. | 5 |
| **Loss of key accreditations**<br>Bodycote is required to maintain specific accreditations in order to provide heat treatment and thermal processing services on parts for certain customers.<br>Failing to keep such accreditations would prevent Bodycote from delivering services to customers in these markets. | **Stable**<br>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.<br>– Should a facility fail an accreditations audit a remediation plan to fix any non-conformities is implemented.<br>– Bodycote has a global network of more than 165 facilities and this enables work to be transferred to another accredited facility. | 5 |
| **Major disruption at a facility**<br>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**<br>Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted. | – Bodycote has a global network of more than 165 facilities. These facilities create a framework to provide backup capability.<br>– Business continuity plans are in place for all plants.<br>– Independent insurer physical inspections of facilities to assess hazard and business interruption risks have been conducted during the year.<br>– Insurance cover, including business interruption cover.<br>– Scheduled equipment maintenance and inspections. | 4 5 |

# Principal risks and uncertainties continued

| Risk description | Risk rating | Mitigation and control | Relevance to strategy |
|---|---|---|---|
| **Operational risks** continued | | | |
| **Machine downtime**<br>Bodycote relies upon its operational equipment, across the network of plants, being available to meet the requirements of its customers. Therefore unexpected equipment breakdowns would potentially affect Bodycote's ability to service its customers. Moreover, without an effective preventative maintenance programme there is a risk that equipment redundancy would need to be built in to facilities in order to cope with equipment breakdowns. | **Stable**<br>Significant periods of equipment downtime would impact customer service and revenue. | – A project is underway to further study and mitigate the risk, for example by using historical maintenance data to develop a comprehensive preventative maintenance programme.<br>– Bodycote has a global network of facilities with robust business continuity plans to minimise the impact of equipment downtime, and work can be transferred to another facility in the network. | 4 5 |
| **Information technology and cybersecurity**<br>The Group relies upon its IT systems, including a range of ERP solutions, to manage its operations. Therefore, IT systems interruptions could lead to business process disruption and interruption to key business services.<br>A cyber attack breach could result in the theft, manipulation or destruction of confidential and sensitive information and severely disrupt business operations. | **Increasing**<br>There is an increase in the risk of sophisticated cyber attacks, including ransomware and phishing, and the impacts of these attacks have also been increasing.<br>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.<br>– Increased focus on IT security management processes.<br>– Bodycote maintains a focus on improving information security and has well-protected data centres supported by effective business recovery planning and data backup procedures.<br>– During the year, we deployed multifactor authentications for a number of our key applications and we also increased phishing awareness via a targeted training exercise. | 5 |
| **Regulatory risks** | | | |
| **Regulatory and legislative compliance**<br>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. We are also conscious of the Department for Business, Energy and Industrial Strategy's (BEIS proposals) response to the consultation of 'Restoring trust in audit and corporate governance'. | **Stable**<br>Failure to comply with legislation could lead to substantial financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation. | – Business processes are supported by Human Resources policies and the Group Code of Conduct alongside training and awareness programmes.<br>– The 'Open Door Line' whistle-blower facility operated by a third party.<br>– Engagement of specialists (lawyers, accountants, tax specialists, trade compliance consultants and freight forwarders) to support Bodycote at local, divisional and Group levels.<br>– Regular audits of the effectiveness of implemented procedures.<br>– Regular monitoring of the BEIS proposals, related requirements and potential impacts on the Group. | 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

# 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 2022 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 2023 budget and the Board approved five-year strategic plan. These projections reflect an ongoing recovery post-COVID-19 of 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 96, 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 45). 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 no 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, and were as follows:

- Plausible downside scenario which assumes a further slow-down in the global economy, resulting in a CAGR of 1% over the five-year period.
- 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 2023 revenues would need to fall 25% below 2022 levels, and have zero growth thereafter before banking covenants are breached by the end of 2027. Whilst this scenario is not considered remotely plausible, it was designed to stress-test the financial resilience of the Group.

In the break-case scenario capital expenditure was reduced, reflecting the reduced maintenance capital expenditure required in a scenario with lower furnace utilisation, and the lower levels of growth capital expenditure that would be invested in the economic climate modelled in these scenarios. In addition, dividends were reduced significantly. No mitigating actions such as restructuring were included.

In the base case and the 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 the plausible downside scenario. The Directors also took into consideration the Group's financial position at 31 December 2022, with available liquidity of £222.0m 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, should any debt facility be required, this 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 2027.

# A component journey
# **Steel bite**

Dental implants must be exceptionally strong, resistant to corrosion and able to withstand repeated pressure. They require heat treatment processing to ensure they have the properties needed, such as mechanical strength, and surface hardness and corrosion resistance. Specific medical approvals ensure treatments meet strict criteria for processing and cleanliness.

Image removed

Dental implants begin life as martensitic stainless steel bars, selected for their corrosion resistant properties as well as mechanical strength.

Image removed

The implants are machined to shape.

Image removed

Implants are hardened under vacuum to avoid contamination, and to optimise fatigue resistance, with precise process parameters to limit distortion ensuring allowance for final grinding tolerances.

Image removed

The implants are finish ground to final dimensional specifications.

Image removed

Implants are quality inspected to check for any contamination or evidence of pitting corrosion.

Image removed

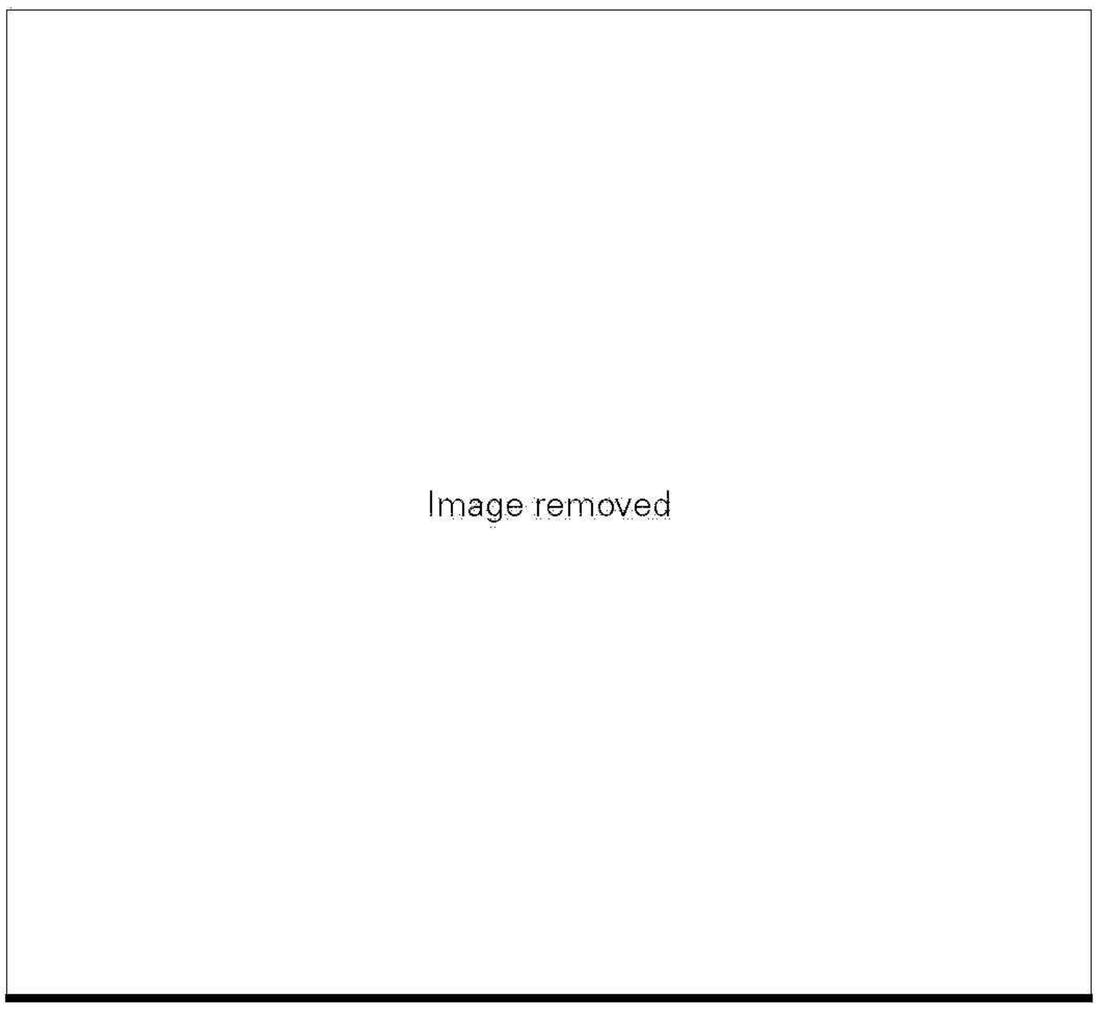
End application:
**Dental implant**

The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied.

# Sustainability report

"We are very pleased to achieve approval of our near-term science-based emissions targets. Managing energy and reducing our environmental impact has long been part of our corporate culture. Bodycote is focused on ethical and sustainable growth, and we are proud of our commitment to setting a target for significant reductions in carbon emissions."

**S.C. Harris**
Group Chief Executive




## Our approach to sustainability

Bodycote's approach to sustainability begins with ensuring we operate our business responsibly and prioritise the safety of our people, customers, communities and the environment.

Sustainability has long been part of our DNA through the contribution that our solutions have in reducing the impact on the environment. Advancing our sustainability approach, in 2022, Bodycote committed to the Science Based Targets initiative (SBTi), reinforcing our steadfast commitment to reducing our carbon footprint and minimising our impact on climate change while improving business opportunities and reducing our customer's carbon footprint, too.

Through our Sustainability strategy, we aim to reinforce our services that make the world more resilient and sustainable, helping to maintain our competitiveness today and in the future. Bodycote is dedicated to improving the management of sustainability issues and has policies and initiatives to achieve this goal. We are committed to being accountable for all reporting requirements.

## Our people

Sustainability starts with our people; the Group's strength comes from our diverse and talented network of employees who are experts in their fields and share common Core Values. Our Core Values provide a framework for our sustainable progress. Throughout 2022, as the world emerged from the pandemic, Bodycote continued to progress through challenging circumstances and managed to minimise the impact on our service levels, whilst ensuring the health and wellbeing of our employees was at the forefront of all decisions. Our people enable the Group to be well positioned for today and the future.

Our sustainability approach focuses on our broader impact on the environment, the communities where we operate, our employees, shareholders and society as a whole. Bodycote's stakeholder model (see page 18) shows how its interactions on various levels contribute towards socio-economic growth and development. Our people are at the heart of our sustainability activities.

The Group is committed to providing the appropriate skills and training to allow its employees to operate effectively and safely in their roles and deliver results. Bodycote invests in the training and development of its people at local and Group levels.

## Culture and Core Values

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

Our Core Values are straightforward and are as follows:

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

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

***Creating Value***
Creating value is the very essence of our business and is the focus of our endeavours. We create value for our customers, our employees and our shareholders. The realities are harsh. If we do not create value for our customers then we have no reason for existence. If we do not create value for our employees there will be no one to create value for our customers.

Our shareholders rightfully require that we ultimately create value for them as they are the owners of the business.

Regular internal satisfaction surveys are undertaken that provide feedback on the level of satisfaction with centrally provided services. Overall satisfaction ratings reach appropriate levels.

We use performance management tools globally to track our progress and growth as individuals and as an organisation to track skills, competency progression and annual achievements throughout our management population. By communicating clear objectives, coupled with skills development, the organisation aims to raise its management capability in driving performance.

# Sustainability report continued

**Equality, diversity 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 that will provide sustainability into the future. As such, we regularly review our recruitment and working practices to identify how we can continue to attract and retain a diverse workforce. We recognise that diversity and an inclusive workplace enrich our service levels and add value for our stakeholders. Our Equality, Diversity and Inclusion Policy and Recruitment Policy dictate that we maintain equal opportunities and give full and fair consideration to all employment applicants. Our recruitment reflects the pool of qualified applicants in our industry, and we actively pursue diverse candidates. However, our gender diversity remains in line with similar industrial services companies. 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.

Bodycote supports employees with policies that fortify our culture and Core Values. The policies help the organisation make better decisions. Our employment policies are non-discriminatory and 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. Due to the nature of our business, we operate with a multicultural team and encourage inclusivity throughout the Group. Harassment of any kind is not tolerated.

Female representation on our Board during 2022 was 33% (2021: 38%), and at the Senior Manager level it is 33% (2021: 30%). Females represent 21% (2021: 18%) of our total workforce.

| | Male | Female | **Total** | Male | Female | **Total** |
|---|---|---|---|---|---|---|
| Directors | 6 | 3 | **9** | 67% | 33% | **100%** |
| Senior managers | 33 | 16 | **49** | 67% | 33% | **100%** |
| Other staff | 3851 | 1024 | **4875** | 79% | 21% | **100%** |
| | 3890 | 1043 | **4933** | 79% | 21% | **100%** |

The overall U.K. gender pay gap figures are published on our website www.bodycote.com. The U.K. mean gender pay gap is 5% in favour of women.

**Health and safety**

Bodycote has a long history of supporting the health and wellbeing of our employees. Throughout 2022, as we dealt with different variants of the COVID-19 virus and continued lockdowns, Bodycote remained vigilant to ensure we offered a safe working environment. Further adaptations were implemented on an 'as needed' basis.

We recognise that individuals work best, and can achieve sustainable high performance over time, when they are healthy and feel valued. Bodycote promotes an environment that encourages line management to support the health and wellbeing of all employees. Bodycote continued sponsoring Company-wide fitness initiatives encouraging employees to be more active and regularly supporting local fitness activities. The Group promotes total wellbeing through regular communications on managing stress and mental wellbeing.

Bodycote is committed to continuous improvement in our environmental, health and safety (EHS) performance. We are committed to complying with all local legislative requirements as a minimum and establishing consistent and robust best practices at all of our sites, enabling the delivery of consistently high performance across all aspects of EHS management.

A vigorous safety and health culture is promoted throughout the organisation which values the identification and reporting of near misses, unsafe acts or conditions, and suggestions for improvement. Bodycote manages hazards and minimises risks to employees through the deployment of robust safety management systems and procedures. Bodycote uses a global incident reporting and EHS management tool at every site. After upgrading our EHS reporting system in 2021 to improve the overall quality of reporting and track EHS incidents, we are more able to identify improvement areas to support the organisation's occupational health and safety goals.

At Bodycote, the most frequent cause of reportable cases remains related to the manual handling of parts and lifting operations and has a number of underlying causes. In 2022, there were continued Group EHS investments in manual and material handling improvements. Reportable cases and lost time injuries are reviewed during Executive Committee meetings and by the Board. The Executive Committee not only reviews incidents that result in injury but also incidents that are considered to have had the potential to cause a high impact.

In 2022, the Total Reportable Case (TRC) rate decreased to 2.5 (2021: 2.9), and the Lost Time Injury (LTI) rate decreased to 1.2 (2021: 1.7).

**TRC rate**

Total reportable cases include:

- Any lost time incident (>1 day or shift, not including the day of the accident)
- Any restricted work case (where the injured person cannot do their usual work)
- Any medical treatment case (specialist medical treatment, not first aid)

Graphic removed

The decrease in TRC rate for 2022 is visible in the chart above.

**Human rights**

As an international business, Bodycote's Human Rights Policy is aligned with the Universal Declaration of Human Rights and the U.N. Global Compact's 10 principles. The Group's Human Rights Policy applies to all our worldwide businesses.

We prohibit forced, compulsory and underage labour and any form of discrimination based on age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual 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.

1 TRC rate is the number of lost time injuries, medical treatment cases and restricted work cases x 200,000 hours, divided by the total number of employee hours worked.

By publicly posting our Human Rights Policy and Equality, Diversity and Inclusion Policy on www.bodycote.com, stakeholders worldwide can alert us to potential breaches of the policy. Our internal systems also support compliance with our policy, and we have a robust Open Door Line, which is our third-party confidential whistle blower's programme, for employees to report alleged violations of law and/or our policies on a confidential basis and in their own language. In the jurisdictions in which we employ a majority of our employees, there are laws applicable to many of the areas dealt with in our Human Rights Policy and our Equality, Diversity and Inclusion Policy.

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

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

Bodycote complies with the Modern Slavery Act. The Anti-Slavery and Human Trafficking Statement is published on our website and reviewed by the Board of Directors annually.

**Responsible business ethics**

The Group has a robust governance structure to support business ethics and a series of policies that detail its commitments and standards in this area. We recognise that rules alone are not sufficient to ensure wrongdoing is avoided – a combination of rules and values is required to help embed a healthy business culture. The Group's approach is to set the tone of an ethical business culture from the top, demonstrating a commitment to the right values and behaviours to all employees.

All Bodycote personnel are expected to apply a high ethical standard in keeping with being an international UK-listed company. This is outlined to every employee in our Core Values and business policies.

Image removed

Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of, and comply with, the share dealing code.

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

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

Within Bodycote we support employees who speak up. Our Open Door Policy is communicated in all languages used throughout the Group. The policy allows employees to report their concerns confidentially, verbally or in writing, to an independent third-party provider, ensuring anonymity. Our whistle-blower policy provides employees with an avenue to address any number of concerns in a confidential manner.

When incidents are reported, whether through internal or external mechanisms, they are passed to the Head of Internal Audit for investigation and determination of the appropriate steps to be taken for the matter to be addressed.

When our employees do the right thing by speaking up against instances of wrongdoing, we believe it is crucial that the Company also does the right thing and ensures that there are no repercussions for their actions.

Online training courses regarding Anti-Bribery, Information and Data Protection, Tax Evasion, the Authority Matrix and Competition Law have been designed and translated into the major languages used throughout the Group. All applicable employees have completed the interactive courses.

**Suppliers**

Bodycote's operations are such that the Group does not have significant suppliers who are wholly dependent upon the Group's business and has no significant suppliers on which the Group is dependent upon for a substantial part of its business. We manage our suppliers with respect, honesty and integrity, no matter the size of the transaction. Suppliers are paid in line with contractual and legal obligations. We expect suppliers to adhere to our Supplier's Code of Conduct for all relevant items.

**Customers**

Service is at the core of our business; Bodycote works with customers to fulfil their demands in the most productive manner possible. We modify our methodologies to become a better thermal processing solutions provider by surveying customer satisfaction levels. We endeavour to respond quickly to changing customer demands, identify emerging needs and improve service availability and quality. We stay close to our current and potential customers by building long-term relationships.

28%

**reduction target of Scope 1 and Scope 2 emissions by 2030 from 2019 base year**

6%

**reduction in $CO_2e$ compared to 2021 notwithstanding our 21% growth in sales.**

Image removed

**Community**

Bodycote seeks to play a positive role in the local communities in which it operates by providing employment opportunities and building goodwill and a reputation as a good neighbour and employer. Our operations are international but our strength lies in the local nature of our facilities that are close to our customers. Our facilities are relatively small plants that typically employ approximately 30 people. We encourage community involvement activities championed by our plants and their employees locally.

## Environment

As the world's leading provider of thermal processing services, Bodycote plays an essential role in minimising climate change. The services Bodycote supplies to its customers improve the lifespan of products and enables a reduction in the environmental footprint of their components. In addition, by efficiently aggregating our many thousands of customers' thermal processing requirements, Bodycote significantly reduces the overall required energy consumed compared with the energy that would be consumed if each customer treated their own products. In this regard, Bodycote can be considered an enabler of reducing global industrial carbon emissions.

More information on Bodycote's Task Force on Climate-related Financial Disclosures (TCFD) can be found on page 42 of the Annual Report.

Bodycote's target for near-term carbon reduction is approved by the Science Based Target initiative (SBTi). Bodycote commits to reduce absolute Scope 1 and Scope 2 GHG emissions 28% by 2030 from a 2019 base year. The SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the Worldwide Fund for Nature (WWF). The SBTi defines and promotes best practices in science-based target setting and independently assesses companies' targets.

**Carbon footprint**

Bodycote offers some of the most energy-efficient processes available on the market, optimising the process to ensure full capacity utilisation, thereby providing maximum benefit to our customers, the Group and the environment. Across the organisation, the Executive Committee oversees a significant capital investment programme targeting carbon reduction initiatives.

Logo removed

Bodycote's total $CO_2e$ emission data is based on Scope 1 and Scope 2, and data relating to this has been calculated to include the most recent emission factors from the International Energy Agency (IEA) and DEFRA. Scope 1 emissions are direct emissions resulting from fuel usage and the operation of facilities. Scope 2 emissions are indirect energy emissions from purchased electricity, heat, steam, or cooling for own use. Bodycote calculated both location- and market-based Scope 2 emissions in line with the GHG protocol. Bodycote measures Scope 3 emissions in line with the GHG Protocol but does not report them as they are deemed to be immaterial.

Graphic remo

For Scope 1, the Group collects natural gas, LPG, fuel oils, methanol and $CO_2$ consumption information from each facility every month; in addition, refrigerant gases and transportation fuel are collated on an annual basis. For location-based Scope 2, the Group collects electricity consumption data from each facility every month, the most recent IEA and DEFRA conversion factors are then applied to calculate the total $CO_2$ tonnage produced. The market-based Scope 2 emissions are calculated using the same electricity consumption data. Where supplier-specific emissions factors are not available, the residual mix is applied; where the residual mix is not available, the IEA country mix is applied. This methodology is in line with the GHG protocol market-based approach. Once the Group has applied the most recently published emission factors to calculate the total tonnage of $CO_2e$ produced, it is then combined with the geographical sales for the year to calculate the normalised[1] $tCO_2e$ per £m of sales.

In 2022, Bodycote's total carbon emissions ($ktCO_2e$) reduced by 6% (location-based) compared with the previous year, notwithstanding our 21% growth in sales. The total $CO_2e$ emissions per £m sales normalised[1] in 2022 were 356.2 Te (2021: normalised[1] 414.8 Te), a 14% reduction.

All entities and facilities are included within the disclosure.

1 Normalised statistics restate sales figures using closing exchange rates at 31 December 2022.

## Total global $CO_2$ emissions

| | $CO_2e$ emissions ($ktCO_2e$) | |
|---|---|---|
| | **2022** | 2021 |
| Scope 1 | **125.6** | 130.0 |
| Scope 2 | **129.8** | 141.9 |
| Statutory total[1] (location based) | **255.4** | **271.9** |
| Statutory total (market based) | **257.7** | |

## $CO_2$ emissions intensity ratios

| | Intensity ratio[2] $CO_2e$ emissions ($tCO_2e$/£m) | | | |
|---|---|---|---|---|
| | **2022** | 2021 | 2022 (normalised[3]) | 2021 (normalised) |
| Scope 1 | **179.7** | 211.1 | 175.2 | 198.3 |
| Scope 2 | **185.7** | 230.4 | 181.0 | 216.5 |
| Statutory total | **365.4** | **441.5** | **356.2** | **414.8** |

Graphic removed

Graphic removed

## Water

Bodycote's processes by design are not intensive in water consumption. However, minimal water is used for either cooling operational equipment or washing customer parts during some services and is typically recycled. Any water discharge resulting from these operations is controlled using measures such as interception tanks to capture water discharged. This allows the water to be checked for any contaminant levels and ensures it is acceptable prior to final discharge. Internal and external auditing verifies that all such control measures are in line with ISO 14001:2015 to ensure compliance with legal obligations.

The total water consumption, as a ratio of thousand $m^3$ per £m sales ($10^3m^3$/£m), decreased by 4% in 2022. Graphic removed

Graphic removed

## Waste

Bodycote provides services to our customers and, as such, most of the customers' parts that arrive in packaging or containers are returned to the customers in the same packaging or containers. Not only does this practice reduce environmental impact and the waste produced, but it provides efficiency to our customers. Bodycote has minimal waste streams. Any waste that does exist is segregated into waste streams and disposed of in accordance with local legislation. Waste transfer arrangements are validated via internal and external audit mechanisms.

## ISO 14001 accredited facilities

Reducing the environmental impact of Bodycote's activities is taken very seriously. The actions we undertake to reduce our environmental impact will align all our facilities to the compliance requirements of ISO 14001. At the end of 2022, 99% of our operating facilities had achieved or maintained ISO 14001:2015 accreditation (2021: 97%).

1 Statutory carbon reporting disclosures required by Companies Act 2006.

2 $tCO_2e$/£m as a consumption intensity ratio to sales is defined as tonnes of $CO_2$ equivalent per million GBP of sales and is denoted as $tCO_2e$/£mm.

3 Normalised statistics restate sales figures using closing exchange rates at 31 December 2022.

4 Normalised water consumption is a thousand $m^3$ per £m sales using closing exchange rates at 31 December 2022.

# Sustainability report continued

Image removed

One of our core competencies within Bodycote is to manage energy efficiently, reducing our carbon footprint and creating value for our shareholders.

We actively minimise energy use in many ways, optimising production capacity and providing energy-efficient processes. It is essential that we monitor energy usage to identify opportunities for improvement so that we can react quickly to address any deficiency in our energy use. To facilitate this, we align ourselves in many countries to ISO 50001 (Energy Management Systems Standard), allowing a consistent energy measurement approach and meeting the Energy Efficiency Directive 2012/27/E.U. requirements. The U.K. remains compliant with the directive through the ESOS.

**Total global energy consumption**

| | Global energy consumption (kWh) | |
|---|---|---|
| | **2022** | 2021 |
| Scope 1 | **661,486,223** | 681,759,643 |
| Scope 2 | **498,502,707** | 503,401,834 |
| **Total energy consumption kWh** | **1,159,988,930** | 1,185,161,477 |

Bodycote's total energy consumption decreased by 2% in 2022.

**Streamlined Energy and Carbon Reporting (SECR) for UK listed companies and their UK subsidiaries**

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.

Bodycote PLC and UK subsidiaries' total $CO_2e$ emissions ($ktCO_2e$) for 2022 were 11.1. 100% of Bodycote PLC and its UK subsidiaries' energy consumption was consumed in the U.K.

| | PLC and UK subsidiaries | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | $CO_2e$ emissions ($ktCO_2e$) | Energy consumption (kWh) | $CO_2e$ emissions ($ktCO_2e$) | Energy consumption (kWh) |
| Scope 1 | **3.8** | **19,693,737** | 3.9 | 20,506,019 |
| Scope 2 | **7.2** | **37,477,197** | 7.5 | 35,400,618 |
| Scope 3 | **0.01** | **39,253** | 0.003 | 12,045 |
| **Total** | **11.1** | **57,210,187** | 11.4 | 55,918,682 |

S.C. Harris
Group Chief Executive
17 March 2023

# A component journey
# **Strong winds**

Modern wind turbines are complex power generation systems, with thousands of components, and are expected to provide reliable operational service for 20-30 years. The drivetrain of a wind turbine – consisting of the gearbox and generator – is exposed to extreme environmental stresses and high torque loading. To withstand such high dynamic loads, gearbox systems use heat treatments to exacting specifications to impart vital material properties such as fatigue strength and surface hardness.

Image removed

Gears begin life as carburised steel bar or forging, selected to minimise part distortion.

Image removed

Parts are machined to shape.

Image removed

Gears are nitrocarburised to minimise distortion and provide optimum fatigue resistance, with precise process parameters to ensure allowance for final grinding tolerances.

Image removed

The gears are machined to final specifications.

Image removed

Gears are inspected using magnetic particle inspection to check for any cracks.

Image removed

The gears are assembled into the drivetrain of the turbine.

Image removed

End application:
**Wind turbine**

The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied.

# Sustainability report continued

## Task Force on Climate-related Financial Disclosures

We are building on our progress from previous years through the establishment of our commitment to near-term carbon reduction targets with the SBTi in 2022. In response to our ambition to achieve our SBTi target, we will continue to build on our assessment of the Group's climate change-related risks and opportunities, enhance our scenario modelling and focus on the management and mitigation of risks throughout the Group. We manage and measure our impacts, risks and opportunities with regard to environmental and social impacts through the TCFD model.




### Governance

Accountability for managing climate-related risks and opportunities is led by our Chief Executive with the support of both the Executive Committee and the Risk and Sustainability Committee with management responsibilities integrated into the relevant divisions throughout the Group. The Risk and Sustainability Committee oversees and directs both the climate-related risks and opportunities and meets regularly to develop plans for delivering and embedding the sustainability strategy across the Group and to monitor and track progress against plan. Capital investment decisions include sustainability reviews to ensure alignment with the achievement of the Group's SBTi commitment.

The Chief Executive regularly reports progress against climate strategy and related commitments to the Board. The 2022 Board agenda included review and consideration of the Group's climate change risks and opportunities, challenge and approval of the Group's SBTi near-term carbon reduction targets and related achievement roadmap, and deep dives into environmental strategies to define directional focus for the Group's strategy, to not only achieve our SBTi carbon emissions reduction target, but also to work with our customers to continue to develop strategies, formulate additional initiatives and collectively reduce our carbon emissions together.

### Strategy

Sustainability and climate change has been identified at the top of Bodycote's strategic priorities (refer to page 14) and we take a highly proactive approach to focusing on sustainability and energy efficiency throughout all of our operations. At every stage where Bodycote is involved in the manufacturing cycle, our operational aim is to reduce the overall impact on the environment, not just in our operations but also in those of our customers. Climate change-related risks have been identified as one of our principal risks. Consequently, we have integrated the identification and management of climate-related risks into our existing approach to risk management. Climate change-related risks and opportunities are routinely considered in our annual budget process, operational management, strategic planning process and capital allocation decisions. In 2022, we developed several tools for reporting and tracking the impacts of climate change throughout the organisation.

With customers in almost all industries worldwide and across 22 countries, we engage with our customers to determine how we can assist them in achieving their sustainability targets as well. Without Bodycote, many companies would be using older in-house technology and running their equipment at reduced capacity, draining energy resources. Working with Bodycote enables our customers to commit more easily to carbon reduction initiatives.

Our proactive carbon reduction initiatives are throughout operations and extend to our service offering by encouraging customers to switch to processes with lower carbon footprints.

We have focused on climate-related risks and opportunities in the short- and medium-term horizons in the development of our medium-term SBTi target. The roadmap to achieve this has identified various carbon reduction projects which are being rolled out across the Group.

During the year, the Group has been focused on setting its SBTi target. The preparation of scenario analysis is now in progress and the Group has started to build on the high level scenarios from 2021 to carry out analysis to understand the potential impacts of climate change on the Group's operations including a 2°C or lower scenario. We are currently developing the following three scenarios developed by CBES (Climate Biennial Exploratory Scenario) in order to evaluate our strategic resilience: Early Action (<2°C), Late Action (<2°C) and No Policy Action (<3°C) enabling the Group to prepare a more detailed climate change resilience review and related disclosures in 2023. The CBES explore both transition and physical risks, to different degrees, and build on the climate scenarios developed by the Network for Greening the Financial System (NGFS).

### Risk and opportunity assessment

Climate change risk is included in the Group's principal risks and is assessed alongside our other principal risks as part of the overall risk management framework, described in our principal risks and uncertainties section on page 28. This ensures that material climate-related risks are incorporated into the Group's strategic and financial planning. The plans include addressing the identified risks by developing mitigation activities as well as the related financial impacts in both future capital expenditure and operating cash flow. Key focus areas in 2022 were on raising awareness of climate-related matters across the Group with particular focus on carbon reduction activities in order to achieve our SBTi commitment and mitigation plans for potential climate-related changes.

The Group's process for determining which risks and opportunities could have a material impact on the business entails a top-down risk review by the Risk and Sustainability Committee where climate-related risks and opportunities are identified across the business and evaluated based on their likelihood of occurrence and severity

of impact on the Group's strategy. Materiality is assessed on a case by case basis and is considered to be the threshold when an issue becomes sufficiently important that it could significantly impact our strategy.

The Risk and Sustainability Committee has reviewed and discussed the climate-related risks across the business and has prioritised them based on potential business impact. The impact of transitional and physical risks are assessed over the short-to-medium and long-term. The table below highlights these priority risks and opportunities. Transition risks and opportunities are examined based on policy, technology, market and reputation to the Group. The identified risks are assessed at different levels of the business focusing on both financial and strategic impacts.

| Category | Subcategory | Risk/Opportunity description | Indicative time frame[1] | Link to Principal Risks |
|---|---|---|---|---|
| Opportunities | Sales | **Increased regulation and pricing of GHG emissions**<br>Revenue uplift from providing carbon emissions reductions opportunities to customers and increased outsourcing by customers to Bodycote (refer to Scope 4 – avoided emissions on page 13). | S/M | |
| | Sales | **Government incentives**<br>Revenue uplift from increased customer outsourcing resulting from the Group's access to energy tax exemptions from emissions avoidance in certain markets. | S/M | |
| | Sales | **Accelerated transition from ICE[2] to EVs[3]***<br>We are very well positioned to service EV components and are becoming a supplier of choice to EV manufacturers and OEMs. | S/M | |
| Transition risks | Technology | **Deployment of lower emissions technologies**<br>The impact of future capital investment for the deployment of lower GHG emissions technologies, including capital investment to accelerate conversion to our lower emissions Specialist Technologies. | L | Climate change |
| | Policy | **Increased pricing of GHG emissions**<br>Increased input costs due to energy prices and incremental cost of renewable energy. | S/M | Markets and customer risks |
| | Policy | **Increased regulation of GHG emissions**<br>Failure to meet changing regulatory requirements to secure cleaner energy sources including potential tariffs on GHG emissions such as taxes, carbon surcharges or energy usage restrictions. | S/M | Regulatory & legislative compliance |
| | Policy | **Exposure to litigation**<br>Failure to manage and comply with changing climate-related issues may result in fines or reputational damage in some of our markets. | L | Regulatory & legislative compliance |
| | Reputation | **Pressure groups**<br>The impact of potential environmental activism threatening reputation, such as activism and protest against the aviation, automotive or energy industries. | S/M | Emerging |
| | Market | **Influence of ESG on debt-rating agencies and assessment of credit risk**<br>Changes in investor expectations can influence market valuations negatively. | L | Markets |
| Physical risks | Acute | **Increased severity of extreme weather events**<br>Acute physical events are already happening in the short term and will likely continue to occur and become more widespread. Over the long term, these could impact the geographic areas where the Group operates. | L | Climate change/ major disruption |
| | Chronic | **Changes/extreme variability in weather patterns**<br>Changes in weather precipitation patterns and extreme weather conditions such as floods, droughts and fires may lead to events such as acute shortages of water, energy supply issues or significant swings in commodity prices, which may impact our operations. | L | Climate change/ major disruption |

1 Short term to medium term (S/M): 1 to 10 years Long term (L): 11 to 30 years 2 ICE: Internal Combustion Engine 3 EV: Electric Vehicle

* considered an emerging risk on page 38 but after risk mitigation the Group also sees this as an opportunity.

The Group has also identified several transition opportunities as part of its GHG reduction initiatives.

The identified impacts of climate-related risks and opportunities on the Group's business, strategy and financial planning are as follows:

- The Group has considered the potential financial impacts of the prioritised risks and opportunities and does not consider them to have a material impact on the Group's consolidated financial statements.
- Good progress against carbon reduction targets set in 2022. Refer to pages 12 and 38.
- A number of energy efficiency projects were implemented in 2022 as described on page 42 to improve climate resilience of our operations.
- Energy efficient monitoring software is used in the Group helping to streamline energy usage in operations. This is being rolled out on a wider basis to cover more activities.
- Continued focus on developing our approach to assessing the potential financial impact of climate change on the Group including potential impacts on revenues, expenditures, assets and liabilities on the Group's strategic and financial planning process.

### Metrics and targets

We measure the material impacts and outputs from our business based on standards and regulations relevant to our operations. We continually monitor these metrics and targets to ensure that they remain meaningful, aligned to our strategy and provide the information our business and stakeholders require to effectively monitor our performance. These emissions-related metrics are reported throughout the Sustainability section of the report. At the time of our SBTi submission, our Scope 3 emissions were not considered material. We will disclose Scope 3 emissions once they represent more than 40% of our overall GHG emissions which would be considered material.

# Sustainability report continued

## Task Force on Climate-related Financial Disclosures reference table

TCFD recommendations are embedded in our business practices and discussed throughout this report. The table below is a summary of our TCFD reporting and where the relevant information can be found within this Annual Report. Bodycote has prepared its climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures and has complied with Listing Rule 9.8.6R, except where set out below. We have also considered the October 2021 TCFD additional all sector and non-financial groups' guidance on implementing the "Recommendations of the Task Force on Climate-related Financial Disclosures' (2021 TCFD Annex) and our TCFD disclosure reflect these guidelines where appropriate.

| **Governance** | | |
|---|---|---|
| Describe the Board's oversight of climate-related risks and opportunities. | ✓ | **Sustainability report – page 42** |
| Describe the management's role in assessing and managing climate-related risks. | ✓ | **Sustainability report – page 42** |

| **Strategy** | | |
|---|---|---|
| Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. | ✓ | **Sustainability report – page 43** |
| Describe the impact of climate-related risks on the organisations' business, strategy and financial planning. | ✓ | **Sustainability report – pages 42 & 43** |
| Describe the potential impact of different scenarios, including a 2°C scenario on the organisations' business, strategy and financial planning. | ↻ | **N/A – refer to above and Sustainability report page 42** |

| **Risk and Opportunities** | | |
|---|---|---|
| Describe the organisation's processes for identifying and assessing climate-based risks. | ✓ | **Sustainability report – pages 42 & 43**<br>**Principal risks & uncertainties report – page 28** |
| Describe the organisation's processes for managing climate-based risks. | ✓ | **Sustainability report – page 42**<br>**Principal risks & 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 – page 42 & 43/Principal Risks & 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. | ✓ | **Sustainability report – pages 39 & 40** |
| Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks. | ✓ | **Sustainability report – pages 38 & 43** |
| Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. | ✓ | **Sustainability report – pages 38-40, 43** |

✓ complete ↻ in progress

# Non-financial reporting statement

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our 2022 Annual Report and on our website.

Our Core Values, Code of Conduct and Group policies underpin everything we do at Bodycote. Our 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.

## Environmental

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**Standards, policies and actions which govern our approach**

- Occupational Health & Safety Policy
- Environmental Policy
- Carbon Footprint and Water consumption statements
- Reduction of greenhouse gas emissions

For further information visit **pages 39 to 40**

Visit **bodycote.com**

**Key metrics**

- Progress on reductions in carbon footprint and water consumption

**Internal processes to monitor performance**

Energy and greenhouse gas management is tracked per facility monthly.

## Social

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**Standards, policies and actions which govern our approach**

- Graduate and Apprenticeship Programme
- Performance Goal Management System
- Occupational Health & Safety Policy
- Succession Planning Process
- Equality, Diversity and Inclusion Policy
- Equal Opportunities Policy
- Data Protection Policy
- Open Door Policy

For further information visit **pages 35 to 38**

Visit **bodycote.com**

**Key metrics**

- % of female representation in total workforce and on Executive Committee and Board of Directors
- Lost work case incident rate
- Recordable incident rate
- U.K. Gender Pay Gap Report

**Internal processes to monitor performance**

- The Executive Committee monitors SHE 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

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**Standards, policies and actions which govern our approach**

- Core Values
- Code of Conduct
- Ethics Policy
- 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 **pages 35 to 36 and 42**

Visit **bodycote.com**

**Key metrics**

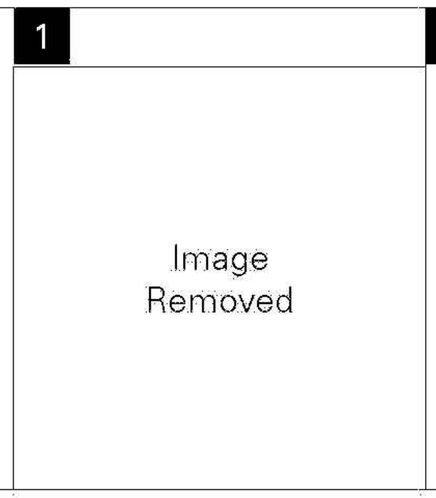
% of relevant employees trained on our policies

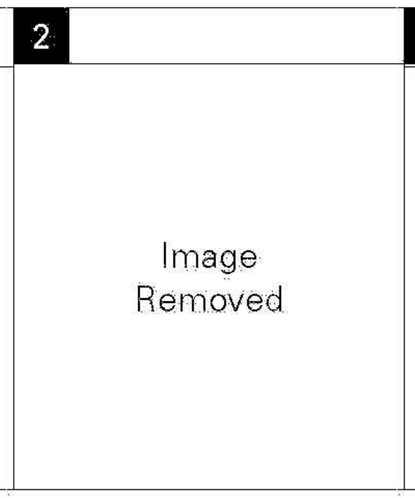
# of breaches

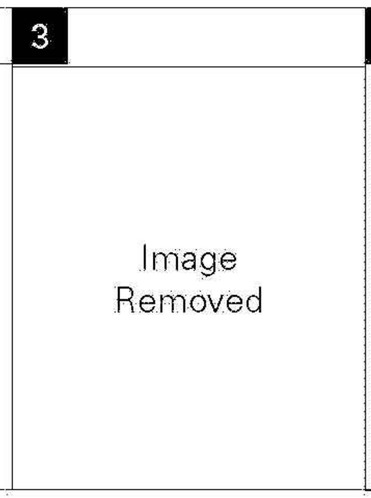
**Internal processes to monitor performance**

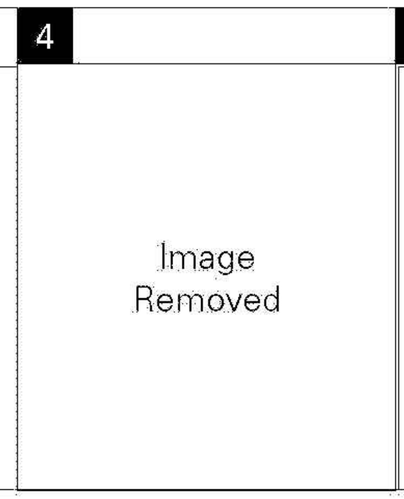
The implementation and effectiveness of the training is overseen by the Group General Counsel and Group Company Secretary.

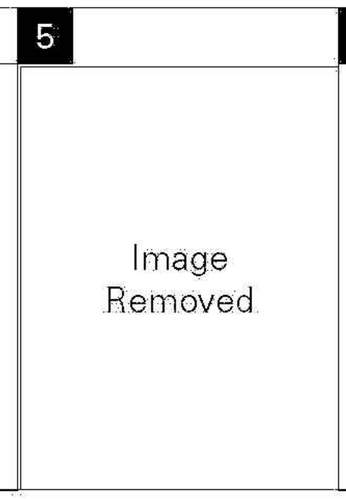
# Board of Directors

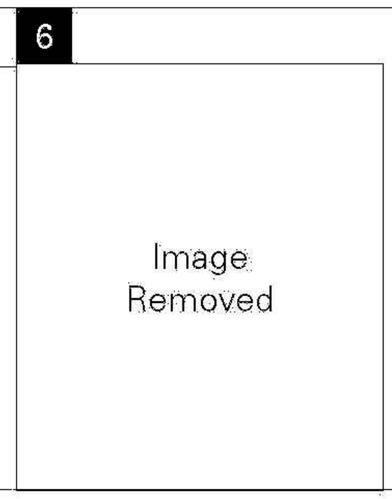
1 


2 


3 


4 


5 


6 


## Executive Directors

### 1 Stephen Harris
GROUP CHIEF EXECUTIVE

APPOINTED: November 2008 and Executive from January 2009 (E)

#### External roles
None.

#### 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 Dominique Yates
CHIEF FINANCIAL OFFICER

APPOINTED: November 2016 (E)

#### External roles
None.

#### Past roles
Held various senior positions in Imperial Tobacco Group plc followed by Chief Financial Officer positions at Symrise AG, LM Windpower and Regus plc.

#### Qualifications
Chartered Accountant, graduated from Bristol University in Economics and Accounting.

### 4 Ian Duncan
SENIOR INDEPENDENT DIRECTOR

APPOINTED: November 2014 (A) (R) (N)

#### External roles
None.

#### Past roles
Worked on a variety of audits with Deloitte & Touche, followed by four years with Dresdner Kleinwort Wasserstein. From 1990 to 1992 he worked for Lloyds Bank plc and then switched to British Nuclear Fuels plc from 1993 to 2006. In 2006 he took on the role of Group Finance Director with Royal Mail Holdings plc, leaving in 2010. He was Non-Executive Director of Fiberweb plc during 2013, Mouchel Group from 2013 to 2015, WANdisco plc from 2012 to 2016, Babcock International Group from 2010 to 2020 and SIG plc from 2017 to 2021.

#### Qualifications
Chartered Accountant, qualified with Deloitte & Touche after graduating from the University of Oxford.

### 5 Eva Lindqvist
NON-EXECUTIVE DIRECTOR

APPOINTED: June 2012 (A) (R) (N)

#### External roles
Non-Executive Director of Keller Group plc since 2017 and of Tele 2 AB from 2018, Excillum AB (not listed) and Nominet plc (not listed) since 2021 as well as Greencoat Renewables plc since 2022.

#### Past roles
Began her career in various positions with Ericsson working in Continental Europe, North America and Asia from 1981 to 1990 followed by director roles with Ericsson from 1993 to 1999. Joined Teliasonera in 2000 as Senior Vice President moving to Xelerated initially as Chairperson and later as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013, Blekinge Institute of Technology from 2010 to 2013, Tieto Corporation from 2010 to 2016, Assa Abloy from 2008 to 2018, Caverion Oy from 2013 to 2018, Alimak Holding from 2015 to 2018, Micronic Mydata AB from 2013 to 2016, Mr Green & Co AB from 2016 to February 2019 and Sweco AB from 2013 to 2020.

#### Qualifications
Engineer, graduated with a Master's degree from Linköping Institute of Technology, Diploma in Marketing from IHM Business School and MBA Financial Analysis from the University of Melbourne.

## 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 the Trend Networks Group from 2023 (not listed).

#### 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.

### 6 Kevin Boyd
NON-EXECUTIVE DIRECTOR

APPOINTED: September 2020 (A) (R) (N)

#### External roles
Non-Executive Director of EMIS Group plc since 2014, Chair of the Audit Committee since 2019 and Senior Independent Director from 2022. Non-Executive Director and Chair of the Audit Committee of Genuit Group plc since 2020, appointed Chair in 2022.

#### Past roles
Held the positions of Chief Financial Officer at Oxford Instruments plc and Radstone Technology plc and, most recently, Chief Financial Officer at Spirax-Sarco Engineering plc which he stepped down from in September 2020.

#### 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.

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8 Image Removed

9 Image Removed

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

## 7 Patrick Larmon
NON-EXECUTIVE DIRECTOR

APPOINTED: September 2016 (A)(R)(N)

### External roles
Non-Executive Director of Libbey Glass Inc., Handgards Inc., Box Partners LLC and DFS Inc., 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) followed by achieving Certified Public Accountant, followed by an MBA from Loyola University of Chicago and a Master of International Business from St. Louis University.

## 8 Lili Chahbazi
NON-EXECUTIVE DIRECTOR

APPOINTED: January 2018 (A)(R)(N)

### External roles
Strategy consultant and since 2008 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.

Lili considers herself a person of colour due to her part Iranian/Middle East background.

## 9 Cynthia Gordon
NON-EXECUTIVE DIRECTOR

APPOINTED: June 2022 (A)(R)(N)

### External roles
Chair and Non-Executive Director of Global Fashion Group since 2017 and Non-Executive Director of Eutelsat Communications SA since 2019.

### 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.

Cynthia considers herself a person of ethnic minority due to her part Asian background.

## 10 Ute Ball
GROUP COMPANY SECRETARY

## Board skills and experience

| | D Dayan | S Harris | D Yates | I Duncan | E Lindqvist | P Larmon | L Chahbazi | K Boyd | C Gordon |
|---|---|---|---|---|---|---|---|---|---|
| Strategy | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| M&A | ● | ● | ● | ● | ● | ● | | ● | ● |
| International | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Recent and relevant financial experience | | | ● | ● | | | | ● | |
| Corporate finance/treasury | | | ● | ● | | | | ● | |
| Accounting | | | ● | ● | | ● | | ● | |
| Technology | | | | | ● | | | | |
| Customer | ● | ● | | | ● | | ● | | ● |
| Sales and marketing | ● | ● | | | ● | ● | | | ● |
| Service industry | | ● | ● | ● | ● | ● | ● | | ● |
| Environmental, including climate change | | ● | | | ● | | | | |
| Governance | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Engineering | ● | ● | | | ● | | | ● | |
| Leadership | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Emerging markets | ● | ● | | | ● | | ● | ● | ● |
| Manufacturing | ● | ● | | ● | ● | | | ● | ● |
| Capital-intensive industries | ● | ● | | | | | ● | | |

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# Corporate governance statement

## Chair's message

Dear Shareholders

On behalf of the Board, I am pleased to present Bodycote's Corporate Governance Statement for 2022.

During the year, significant issues that the Board has dealt with included the COVID-19 pandemic and its continuing effects on the Group's employees and markets, as well as the consequences of Russia's invasion of Ukraine and the consequent sanctions, disruption and energy crisis. The Board, alongside management, sought to assess the risks of these events and contain their impact. My role and that of the Board has been to guide the Group through these intense challenges and to ensure that our strategy remains appropriate and on-course. We were delighted to return to physical meetings during the second half of 2022 and to be able to resume plant visits as a group of Directors.

Regular, open and constructive dialogue with shareholders continued in line with the Group's broader commitment to meaningful engagement with key stakeholder groups. I met five significant shareholders personally during the year, predominantly online, to discuss shareholder views of the Group's strategy and performance. The Group's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions, but also in project assessments and general Board conversations. These discussions and assessments focus not only on delivering value for shareholders, but also address the impacts of our decisions and strategies on all stakeholders and are a key aspect of our culture. 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 with employees, shareholders, customers and communities in 2022 is explained in our stakeholder section on page 18.

The Directors receive regular reports on safety and health performance to support their oversight and decisions. Environmental issues are becoming of greater importance to the Group's business and have been specifically discussed by the Board as a whole on several occasions during the year. The Board conducted a review of the existing sustainability processes and has established an ESG policy. The Board agreed to join the Science Based Target initiative (SBTi) and management has established targets, which have been accepted by SBTi and made available on its website. A further focus is on improving the effectiveness of communicating the Group's actions in this area and the role of Bodycote as an energy aggregator, and therefore carbon optimiser, in its customers' supply chains. Further information on Board activities can be found on pages 48 to 56.

Ensuring high standards of business conduct is critical for the success of the Group. Employee Engagement Groups led by the designated Non-Executive Director, Patrick Larmon, are in place and virtual meetings took place during the year. The feedback from these forums is reported to the Board and the Executive Directors charged with addressing any particular items that arise. Topics discussed at the Employee Engagement Groups included COVID-19 and safety, IT improvements, communications and operational matters. Feedback was generally positive, and no material concerns were expressed by employees during the year. In response to employee suggestions, the make-up of the employee and management attendees to these meetings has been amended to allow for improved responsiveness to employee questions.

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

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

Daniel Dayan
Chair

## Governance framework

In respect of the financial year 2022, Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in July 2018 ('the Code').

### Compliance with the 2018 UK Corporate Governance Code

In respect of the year ended 31 December 2022, Bodycote has complied with the provisions of the Code with the exception of Provision 23, progress on setting and achieving targets on diversity and inclusion. Concerning Provision 23, the Board believes it has a strong position on diversity and inclusion with female representation at 33% as of 31 December 2022 and four different nationalities, including two members who meet the ONS classification of Asian/British Asian and mixed/multiple ethnic groups, respectively. The Board and executive management are committed to the principles and practice of diversity and inclusion. At the Senior Management level, there is broad international representation and growing female representation.

In line with Provision 41, engagement has taken place with the workforce via the Employee Engagement Groups concerning executive remuneration.

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

Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board Report on Remuneration presented on pages 68 to 82, 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 | |
| – Receiving presentations from operational management on performance against the strategy | – Considering and approving strategic opportunities, e.g. acquisitions | 1 2 3 4 5 6 |
| – Considering and approving potential acquisition opportunities | – Approving the Group's strategy, budget, tax and dividend | |
| **Division of responsibilities** | **Read more on pages 35-45, 48-56** | |
| – Review of Group policies | – Modern Slavery review | |
| – Review of schedule of matters reserved for the Board<br>– Review of corporate governance code and guidelines | – Convening the AGM, approval of shareholder materials | |
| – Review of terms of reference of all committees<br>– Determining/maintaining the Group's values and ensuring that these are reflected in business practice | – Review of safety, health and environmental updates at each meeting<br>– Overview of stakeholder relationship/ workforce engagement<br>– Implementation of ESG strategy | 1 5 Core Values |
| **Composition, succession and evaluation** | **Read more on pages 59-62** | |
| – Considering proposals on succession planning, when required, for the Board | – Reviewing proposals on senior executive succession planning | |
| – 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<br>– Ongoing Board training | 5 Core Values |
| – Approving further terms as Non-Executive Directors for I.B. Duncan, L. Chahbazi, K. Boyd and P. Larmon | – Tailored induction, when required<br>– Reviewing Board and Committee effectiveness and Directors' conflicts | |
| **Audit, risk and internal control** | **Read more on pages 28-33, 63-67** | |
| – Approval of year-end and interim results<br>– Recommending the final and interim dividends | – Review future scenarios and other factors in relation to audit, risk and internal control<br>– Review of viability statement | 1 5 Core Values |
| – Annual review of principal and emerging risks, risk management and control systems | – Consider whether the Annual Report and Accounts are fair, balanced and understandable | |
| **Remuneration** | **Read more on pages 68-82** | |
| – Remuneration policy review and approval (including Executive Directors' and Senior Management remuneration) | – Chair and independent Non-Executive Directors' fees review | 2 3 4 5 Core Values |

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
- Board effectiveness
- 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 shareholders

### Group Chief Executive

- overall responsibility and leadership of Group performance
- stewardship of Group assets
- plans and executes objectives and strategies
- 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
- has 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

### 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 constructive challenge
- help develop strategy
- ensure financial controls and systems of risk management are robust and defensible
- determine appropriate levels of remuneration for the Executive Directors
- monitor reporting of performance
- scrutinise performance of management
- are available to meet with major shareholders

### 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 corporate 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

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

- strategy;
- approval of financial statements and circulars;
- capital projects, acquisitions and disposals;
- annual budgets;
- Directors' appointments, service agreements, remuneration and succession planning, policies for financial statements, treasury, safety, health and environment, donations;
- Committees' terms of reference;
- Board and Committee 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;
- whistle-blowing and review of whistle-blowing arrangements; and
- environmental, social and governance topics.

## Governance framework

### Directors' information and training sessions 2022 Board

| | |
|---|---|
| March | Climate Change Risk and Governance Update |
| May | SHE Update |
| June | Insurances – market overview/Cyber Risk |
| July | IT Security Update, Risk Updates |
| September | Strategy Update including ESG |
| October | Economist briefing, broker briefing and policy reviews |
| December | SHE Update, Risk Review, Environmental Update and Corporate Governance Review |
| **Audit Committee** | |
| October | BDO Internal Audit Perspectives |
| March, May and October | PwC updates on regulatory and accounting changes |
| **Remuneration Committee** | |
| July | 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 safety, health and environmental and risk management issues and details of the safety and health performance of the Group, and each division, in terms of severity and frequency rates for accidents at work. Senior Management from across the Group and advisers attend some of the meetings to provide updates and context. 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.

Complementing the regular briefings from operational and functional management about Group-specific matters (such as a report at each Board meeting from the CEO on health and safety). Cyber security is covered by annual briefings and ad hoc updates by the CFO. 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 |
|---|---|
| RCF extension | In line with our long-term strategy, the Board gave approval to proceed with the extension of the Rolling Credit Facility (RCF) by another year to expire on 27 May 2027. The Board considered the financial benefits of the RCF extension as well as the benefits to stakeholders. |
| Final dividend for 2021 | 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. |
| ESG – Science-based targets | The Board agreed the submission of science-based targets to be reached by 2030 to the SBTi. This takes the view of our stakeholders and in particular shareholders into account and positions Bodycote positively for the future. |

**The Board's areas of focus in 2023 are expected to include:**

– Increased emphasis on climate change, sustainability and, more broadly, ESG matters;
– Group culture;
– Board dynamics, diversity and development;
– Execution of strategic priorities;
– Continued monitoring of financial and operational performance;
– Continued strong focus on safety improvements; and
– Principal and emerging risks review.

# Corporate governance statement continued

## Governance Report

### Board and Board Committees meeting attendance

Attendance of Directors at regular scheduled meetings of the Board and its Committees in 2022 is shown in the table below:

| | Board Formal meetings | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| **Meetings held during the year** | 7 | 5 | 6 | 12 |
| **Executive Directors** | **Meetings attended** | **Meetings attended** | **Meetings attended** | **Meetings attended** |
| Stephen Harris | | n/a | n/a | n/a |
| Dominique Yates | | n/a | n/a | n/a |
| **Non-Executive Directors** | **Meetings attended** | **Meetings attended** | **Meetings attended** | **Meetings attended** |
| Daniel Dayan | | n/a | | n/a |
| Eva Lindqvist | | | | |
| Ian Duncan | | | | |
| Patrick Larmon | | | | |
| Lili Chahbazi | | | | |
| Kevin Boyd | | | | |
| Cynthia Gordon (appointed 1 June 2022) | | | | |

All Directors attended the maximum number of formal Board, Audit, Remuneration and Nomination Committee meetings that they were scheduled to attend. Non-members D. Dayan, S.C. Harris and D. Yates attended by invitation some parts of the meetings of the Audit, Nomination and Remuneration Committees, as relevant. Note that the Employee Engagement Groups are led by P. Larmon and supported by the Company Secretary. There were four Employee Engagement Group meetings in 2022.

### 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 met on seven occasions during 2022, including a specific meeting to review the Group's long-term and ESG strategy. The Board of Directors comprises 10 members, including CFO designate from 24 February 2023, of whom seven are Non-Executive Directors and three are Executive Directors, led by the Group's Non-Executive Chair, D. Dayan, who also chairs the Nomination Committee. The Group Chief Executive is S.C. Harris, and the Senior Independent Non-Executive Director is I.B. Duncan. I.B. Duncan chaired the Audit Committee until the AGM in May 2022 when K. Boyd took over as Audit Committee Chair. E. Lindqvist is Chair of the Remuneration Committee and P. Larmon is the Chair of the Employee Engagement Groups. L. Chahbazi and C. Gordon (appointed on 1 June 2022) are Non-Executive Directors. It is anticipated that C. Gordon will take over the Chair of the Remuneration Committee at the AGM in May 2023. E. Lindqvist remains independent for the purposes of the Code and will continue to serve as the Chair of the Remuneration Committee until the 31 May 2023 AGM to ensure a smooth transition of the Remuneration Committee Chair responsibilities before standing down from the Board. Dominique Yates, who is the Chief Financial Officer, will retire on 30 April 2023 and Ben Fidler, the Chief Financial Officer designate, joined on 24 February 2023. Brief biographical details of all Directors are given on pages 46 to 47. During the year the Board visited facilities in Derby, UK and Hebron, Kentucky, USA. Such events involve meeting with local management and the workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

### Proposals for re-election

The Board decided, in line with the Code, that all Directors will retire annually and, other than in the case of any Director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly, D. Dayan, S.C. Harris, P. Larmon, I.B. Duncan, L. Chahbazi and K. Boyd will stand for re-election at the AGM in May 2023. C. Gordon and B. Fidler will stand for election in May 2023.

The Board recommends to shareholders that they re-elect all the Directors. The performance of each Director was evaluated, and the Board confirms in respect of each that their performance continues to be effective and that each continues to demonstrate commitment to his or her respective role.

### Board evaluation

Following the external Board evaluation in 2021, the Board agreed to undertake an internal evaluation in 2022. To ensure that all aspects of good governance are covered by the review, the Group Company Secretary distributed a tailored questionnaire to each member of the Board. Questions were framed under the following seven topics:

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

The process of the internal Board and Committee evaluation consists of four steps: a) design and initiation; b) data collection; c) review by chairs; and d) discussion and actions. At a meeting of the Nomination Committee in October 2022, 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 approach to ESG. The Board evaluation covered the activities of the main Board and each of its Committees.

Arising from the exercise, the Board concluded that its focus should remain on divisional growth strategies, risk and sustainability as well as continued training. The overall conclusion is that the Board is performing well, and high governance standards have been adopted. The Executive is strongly challenged by the Board when appropriate. As in previous years, the Chair has assessed the performance through individual performance review questionnaires, and we can confirm that all Directors continue to perform effectively and demonstrate commitment to their roles.

The Executive Directors S.C. Harris and D. Yates will be appraised in March 2023.

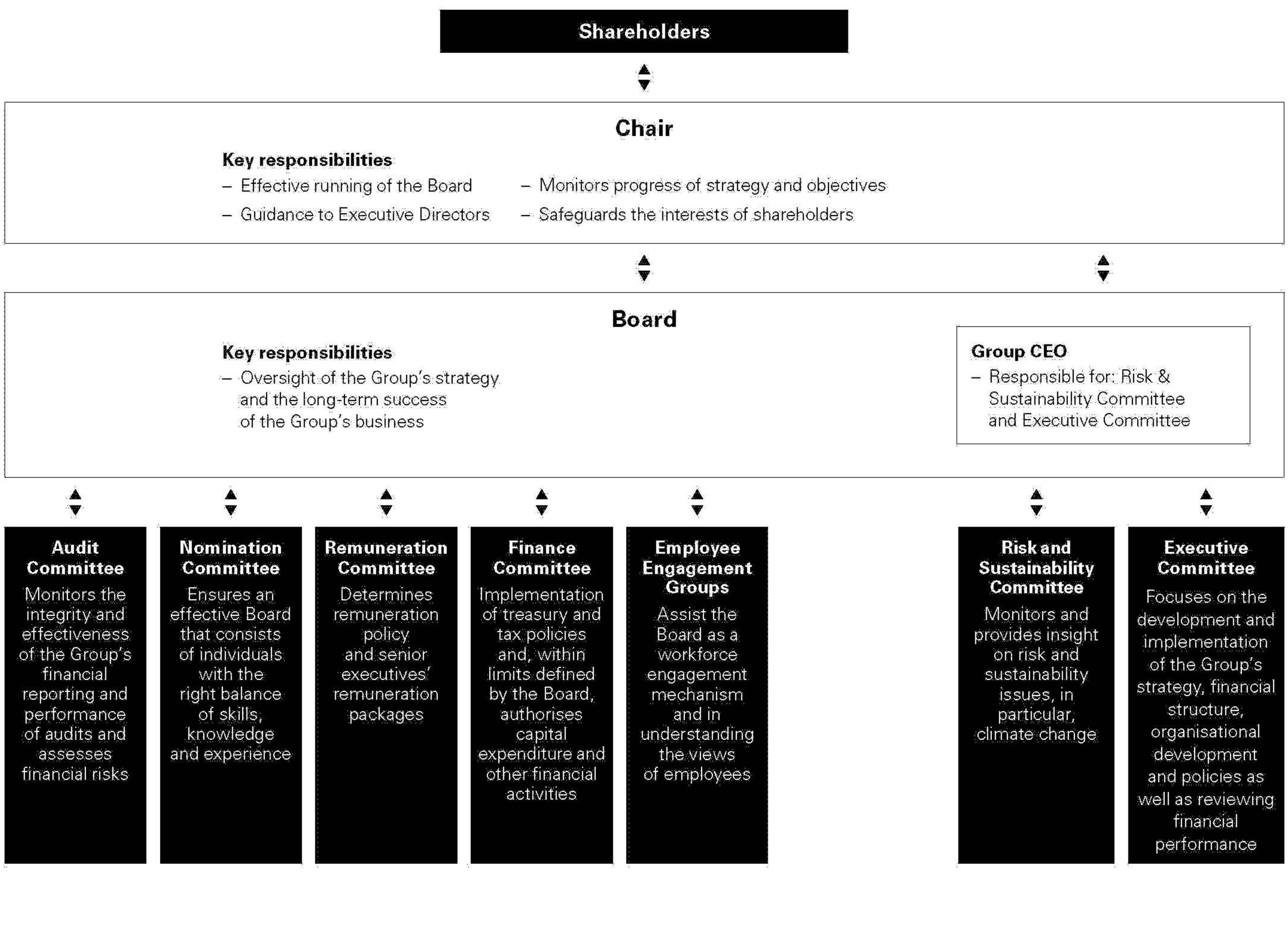
Led by the Senior Independent Director, the Directors carried out an evaluation of the Chair's performance in July 2022. The Board was satisfied with the Chair's commitment and performance.

**Training**

We provide training 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 site trips, meets local management at operations and Directors familiarise themselves with the technology used, logistics, health and safety standards and customers served. Plant visits to Derby, UK and Hebron, Kentucky, USA were undertaken during 2022. 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 the Directors regularly refresh and update their skills and knowledge with both external and internal training when necessary. Members of the Board individually attend seminars, conferences and training events to keep up to date about developments in key areas. Board meetings include presentations from Group experts to ensure the Directors have access to the wealth and knowledge within the Group as well as presentations from external providers.

## The Board structure



# Corporate governance statement continued

**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 have two Groups run in parallel, a European and a North American Employee Engagement Group. Each Group meets either in person or virtually at least annually. The Groups are led by Patrick Larmon, the designated Non-Executive Board Director. Representatives from across the business are the members of the Groups. Participation in the Groups is rotated at certain intervals to allow a variety of opinions and voices to be heard and to ensure effectiveness. The Board felt that the Engagement Groups, headed by a designated Non-Executive Director, assist the Board in understanding the views of employees and act as a conduit of information from employees 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 activity in the Group. However, individual grievance or employment conditions of individual employees are not part of the remit of the Employee Engagement Groups.

The minutes of the meetings are part of the next set of Board meeting papers and are presented by the designated Non-Executive Board Director to the Board. As a result of feedback received from employees, a communication improvement plan is in progress.

In addition, both the Board and the Executive Committee take every opportunity to meet with local employees when visiting different business locations. During 2022, the Board and the Executive Committee visited the Derby, UK and Hebron, Kentucky, USA sites.

## Diversity and length of service

Bodycote is a global business with operations in 22 countries and diversity is an integral part of how we do business and our culture. The Nomination Committee considers diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in any new appointment must always be to select the best candidate. The Nomination Committee also considers capability and capacity to commit the necessary time to the role in its recommendation to the Board. The intention is to appoint the most suitable qualified candidate to complement and balance the current skills, knowledge and experience of the Board and who will be best able to help lead the Company in delivering its long-term strategy. The Nomination Committee is advised by international search companies, who have been briefed on our diversity policy and are required to reflect the policy in the long list submitted to the Committee.

In 2022 female representation on our Board was 33% (2021: 38%). At senior manager level, it is 33% (2021: 28%). Females represent 21% (2021: 19%) of our total workforce. Whilst we are at the 33% by 2020 voluntary target for female representation on Boards recommended by the FTSE Women Leaders Review, we continue to believe it is difficult to set targets or timescales for increasing the proportion of women, or any other minority group, on our Board and do not propose to do so. We will increase female and/or other minority representation on the Board if appropriate candidates are available when Board vacancies arise. We are working towards complying with LR 9.8.6 which requires listed companies to have 40% female representation on the Board and at least one of the Chair, CEO, SID or CFO being female. We have two Board members from minority ethnic backgrounds, one from an Asian British background and one from a mixed/multiple ethnicity background. We will keep compliance with LR 9.8.6 in mind when undertaking Board succession and will endeavour to comply as soon as possible.

Graphic removed

## 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 (incl. those self-identifying as men) | **6** | **67%** | **4** | **2** | **100%** |
| Women (incl. those self-identifying as women) | **3** | **33%** | **0** | **0** | **0%** |
| Non-binary | **0** | n/a | **0** | **0** | **n/a** |
| Not specified/prefer not to say | **0** | n/a | **0** | **0** | **n/a** |

## 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 | **7** | **78%** | **4** | **2** | **100%** |
| Mixed/Multiple ethnic groups | **1** | **11%** | **0** | **0** | n/a |
| Asian/Asian British | **1** | **11%** | **0** | **0** | n/a |
| Black/African/Caribbean/Black British | **0** | n/a | **0** | **0** | n/a |
| Other ethnic group | **0** | n/a | **0** | **0** | n/a |
| Not specified/prefer not to say | **0** | n/a | **0** | **0** | n/a |

The data was collected by asking the Directors concerned and the reference date is the 31 December 2022.

The Sustainability report contains further details regarding the male and female representation within the Group, including Board representation. Our Equality, Diversity and Inclusion Policy is available on our website.

E. Lindqvist was appointed as a Non-Executive Director on 1 June 2012 and reached the end of her ninth consecutive year as a Non-Executive Director and Chair of the Remuneration Committee during 2021. E. Lindqvist will not stand for re-election at the May 2023 AGM and will retire from the Board. C. Gordon will take on the Chair of the Remuneration Committee with effect from May 2023.

## Shareholder relations

The Group Chief Executive and Chief Financial Officer regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy and operating performance. In addition, internet users can view up-to-date news on the Group and its share price via the Bodycote website at www.bodycote.com.

D. Dayan, the Chair, wrote to the top 10 shareholders during 2022 to offer introductory meetings and, if requested, these took place during December 2022 and January 2023.

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

**March 2022**
- Full year results announcement and analysts' presentations
- UK shareholder roadshow
- Annual Report and Accounts and Notice of AGM posted to shareholders and placed on the website

**May 2022**
- Trading Update
- Annual General Meeting

**July 2022**
- Half year results announcement and analysts' presentation

**August 2022**
- Consultation on remuneration with major shareholders

**September 2022**
- UK shareholder roadshows

**November 2022**
- Trading Update

Users of the website can access recent announcements and copies of results presentations and can enroll to hear live presentations. On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the Directors with opinion surveys from analysts and investing institutions following virtual visits and meetings with the Group Chief Executive and Chief Financial Officer. The Chair and SID are available to discuss any issues not resolved by the Group Chief Executive and Chief Financial Officer. On specific issues, such as the review of remuneration packages or elevated levels of votes against a resolution, the Group has sought, and will continue to seek, the views of leading investors.

Where required, a Director may seek independent professional advice, the cost of which is reimbursed by the Group. All Directors have access to the Group Company Secretary, and they may also address specific issues with the SID. In accordance with the Articles of Association, all newly appointed Directors must submit themselves for election. All Directors stand for yearly re-election. Non-Executive Directors, including the 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 the appointment may be extended by mutual agreement on an annual basis. A statement of the Directors' responsibilities is set out on page 83. All Non-Executive Directors (excluding the Chair) serve on each Board Committee.

# Corporate governance statement continued

## 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:

- Values as explained in the Sustainability section on pages 35 to 45
- 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 Committees support this role. The Board recognises that this will continue 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 system of internal control and risk management. The system has 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 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 review responsibilities.

The emerging risk review, based around horizon scanning, has explored what the future might look like and seeks to identify early warning signals. These 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. Risks that have been considered by the Board have included:

- COVID-19 – the long-term effect of this and other possible pandemics;
- geopolitical risks – increased international tensions and tariffs;
- move away from internal combustion engines towards electric vehicles; and
- continued environmental activism, as well as increased focus from both regulators and the investment community on climate change.

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 2022 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 potential fraudulent activities.
- A comprehensive financial planning, accounting and reporting framework.
- 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. To provide assurance on the continued operation of controls, financial control self-assessments (CSAs) have been developed and implemented in each division. The results of these CSAs have been verified by IA. The findings and recommendations from IA are reported on a regular basis to the Executive and Audit Committees.
- An annual internal control self-assessment, with management certification, is undertaken at every Bodycote plant. The assessment covers the effectiveness of key financial, compliance and selected operational controls. The results are validated by IA through spot checks and are reported to the Executive and Audit Committees.

During 2022, in compliance with Provision 29 of the Code, the Executive Committee performed an assessment of its risk management processes by holding risk reviews. Risk reviews were conducted via an internally facilitated risk workshop and also 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. The 2022 emerging risk discussion focused on the wider effects of climate change on the Group and the rise in inflation and energy costs on Bodycote's business. As a result of the discussion, it was concluded that the principal risks reported as at December 2022 remained valid. Refer to pages 28 to 32 for further information on principal risks and uncertainties affecting the Group.

## Annual General Meeting

The 2023 Annual General Meeting will be held on 31 May 2023 in accordance with the notice being sent to shareholders under separate cover.

By order of the Board:

U.S. Ball
Group Company Secretary
17 March 2023

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

# Directors' report

## Directors' report

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2022.

The Chair's statement, the Chief Executive's review on pages 11 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 2022. For going concern please see the CFO statement on page 27 and pages 96 to 97 of the consolidated financial statements.

## Strategic report

The Strategic report is provided on pages 1 to 45 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 2022, key performance indicators and a description of the principal risks and uncertainties facing the Group.

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

## Dividends

The Board has recommended a final dividend of 14.9p (2021: 13.8p) bringing the total ordinary dividend to 21.3p per share (2021: 20.0p). If approved by shareholders, the final dividend of 14.9p per share will be paid on 2 June 2023 to all shareholders on the register at the close of business on 21 April 2023.

## Share capital

The Company's issued ordinary share capital as at 31 December 2022 was £33.1m. No shares were issued during the year.
At the Annual General Meeting on 25 May 2022, the shareholders authorised the Company to purchase up to 22,046,468 of its own shares. This authority expires at the conclusion of the forthcoming Annual General Meeting to be held on 31 May 2023, 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 25 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the Directors are described in the Corporate governance statement on page 48. Under the Articles of Association, the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

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

## Directors

The Directors serving during 2022 and their biographies are listed on pages 46 to 47 and all with the exception of C. Gordon have served throughout the year. In line with the UK Corporate Governance Code, all Directors retired at the Annual General Meeting in 2022 and stood for re-election by the shareholders. All Directors will retire at the next Annual General Meeting and will stand for re-election by the shareholders, if they wish to continue to serve as Directors of the Company. Accordingly, those Directors retiring and offering themselves for re-election at the 2023 Annual General Meeting are D. Dayan, S.C. Harris, I.B. Duncan, P. Larmon, L. Chahbazi and K. Boyd. C. Gordon having joined the Board on 1 June 2022 and B. Fidler having joined on 24 February 2023 will stand for election. D. Yates announced his retirement on 7 February 2022 and will retire on 30 April 2023 and, therefore, will not stand for reappointment. E. Lindqvist, having served from more than nine years, will not stand for re-election. The service agreements for S.C. Harris and B. Fidler are terminable by 12 months' notice. The remaining Directors do not have service agreements with the Company and their appointments are terminable by six months' notice.

# 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 in the Board report on remuneration on pages 68 to 82. No Director has had any dealings in any shares or options in the Company since 31 December 2022. 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 2022 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. In order to ensure that each Director was complying with the duties, each Director provided the Company with a formal declaration to disclose what Situational Conflicts affected him or her. The Board reviewed the declarations and approved the existence of each declared Situational Conflict up until September 2023 and permitted each affected Director to attend and vote at Bodycote Directors' meetings, on the basis that each such Director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote's shareholders, the Chair or the Nomination Committee can revoke an authorisation. No such revocations have been made.

## Employment

The Group recognises the value that can be added to its future profitability and strength 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 with the performance and progress of the Group, the contribution to the Group made by their site, and are advised of safety and health issues. Employees are able to voice any concerns through the Group's anonymous and confidential Open Door Line, a phone line accessed in the local language.

Approximately 3,000 Bodycote employees are connected to the Bodycote intranet, which improves 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, including disabled persons. Should an employee become disabled, the Group, where practicable, will seek to continue the employment and arrange appropriate training. An equal opportunities policy is in operation in the Group.

## 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 48 to 56.

## Greenhouse gas emissions

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

## Donations

There were no political contributions in 2021 or 2022.

## Shareholders

An analysis of the Company's shareholders and the shares in issue at 7 March 2023 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 153.

## 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:

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

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

## Annual General Meeting

The 2023 Annual General Meeting will be held on 31 May 2023 in accordance with the notice being sent to shareholders under separate cover.

By order of the Board:

U.S. Ball
Group Company Secretary
17 March 2023

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

# Report of the Nomination Committee

| Committee membership | No. of meetings 2022: 6 | Main committee responsibilities |
|---|---|---|
| **Director** | **Attendance** | – 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.<br>– Give full consideration to succession planning for Directors and other senior executives in the course of its work.<br>– Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. |
| D. Dayan | 6 | |
| I.B. Duncan | 6 | |
| E. Lindqvist | 6 | |
| P. Larmon | 6 | |
| L. Chahbazi | 6 | |
| K. Boyd | 6 | |
| C. Gordon *(as of 1 June 2022)* | 3 | |

Dear Shareholders,

I am pleased to introduce the Nomination Committee report for 2022. Board composition is a key focus for the Nomination Committee, ensuring that the Board has the right skills and experience to direct the Company in the successful execution of its strategy.

Succession planning was the focus for the Committee during the year with the appointment of Cynthia Gordon as Non-Executive Director on 1 June 2022 and the appointment of Ben Fidler as Chief Financial Officer designate on 24 February 2023. Cynthia will succeed Eva Lindqvist as Chair of the Remuneration Committee after the 31 May 2023 AGM and Ben will take over as CFO on 1 May 2023. Eva will retire from the Board at the 2023 AGM after more than 9 years as a Non-Executive Director of the Group, and Dominique Yates will retire from the Board on 30 April 2023 after seven fruitful years as CFO. We thank them both for their service and wise counsel. The Committee will continue to focus on ensuring that the present and future composition of the Board is appropriate and that all relevant UK Corporate Governance Code requirements continue to be met as far as possible.

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

**Daniel Dayan**
Chair of the Nomination Committee

## Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, the principal purpose of which is to advise on the appointment and, if necessary, dismissal of Executive and Non-Executive Directors. The Committee's terms of reference, which are listed on the Group's website, include all matters required by the UK Corporate Governance Code ('the Code'). Further information on the Code can be found on the Financial Reporting Council's website www.frc.org.uk. The terms of reference are reviewed annually by the Group Company Secretary and the Chair, and any changes are then 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 international search consultancies are appointed to assist with the search |
| Selection | – A sub-committee examines the 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 that is tailored to the needs, skills and experiences of the new Director |

# Report of the Nomination Committee continued

## Key activities

**Board composition/succession planning**

- Reviewed and updated succession plans for the Board and Senior Management
- Appointed a new Chair as of 1 January 2022
- Recruited a new Non-Executive Director, Cynthia Gordon, who commenced on 1 June 2022 and who will take over as Chair of the Remuneration Committee after the 2023 AGM
- Recruited a new CFO during 2022, who commenced on 24 February 2023

**Non-Executive Directors**

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

**Diversity**

- Reviewed the Group's diversity policy on governance and evaluation

**Governance and evaluation**

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

## Director appointment policy and progress

The Committee has developed a formal rigorous and transparent procedure for the appointment of new Directors. Prior to making any appointment, the Committee, having evaluated the skills, experience and diversity of the Board, determines the qualities and experience they seek 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 the Committee recommends to the Board the appointment of the preferred candidate.

Charts removed

## Composition of the Nomination Committee

As recommended by the Code, the Chair of the Board acts as the Chair of the Committee whose members also comprise the Directors listed above. 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.

## Directors' induction and training

Induction programmes are individually tailored for all new Directors, following the appointment process as overseen by the Nomination Committee. Each programme considers existing expertise and any prospective Board or Committee roles.

In advance of D. Dayan's first Board meeting in March 2022, arrangements were made for plant visits, introductions and briefings to ensure there was an appropriate opportunity to understand and ask questions about the strategic, financial and operational context.

## Board induction programme for Daniel Dayan – undertaken during 2022

| Topic | Activities |
|---|---|
| Business strategy | Meetings with Group CEO and Senior Managers |
| Finance | Meetings with Group CFO and meetings with Head of Internal Audit, Director of Finance, Group Financial Controller and Head of Tax & Treasury |
| Governance | Meetings with the Group Company Secretary and with major shareholders |
| Legal | Meeting with General Counsel |
| IT | Meeting with Chief Digital Officer |
| Operations | Meetings with the Group CEO, Executive Committee members, VPs of Finance, Shared Services and Tax & Treasury were undertaken |
| Facilities | 12 visits have taken place |

## Board induction programme for Cynthia Gordon – undertaken since June 2022

| Topic | Activities |
|---|---|
| Business strategy | Meetings with Group CEO and Senior Managers |
| Finance | Meetings with Group CFO and meetings with Head of Internal Audit, Director of Finance, Group Financial Controller and Head of Tax & Treasury |
| Governance | Meeting with Group Company Secretary |
| Legal | Meeting with General Counsel |
| IT | Meeting with Chief Digital Officer |
| Operations | Meetings with the Group CEO, Executive Committee members, VPs of Finance, Shared Services and Tax & Treasury were undertaken |
| Facilities | Four visits have taken place |

As part of the mandatory training programme, all Directors are further required to complete courses which address areas most pertinent to Bodycote and their role on the Board. This covers both statutory obligations and ethical considerations and include 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

C. Gordon joined the Board as a Non-Executive Director on 1 June 2022. In line with the UK Corporate Governance Code 2018 criteria, C. Gordon is independent. The recruitment process was led by the Chair, who was advised by international search consultancy Russell Reynolds in the process of identifying suitably qualified individuals. D. Yates announced his retirement on 7 February 2022 and his successor, B. Fidler, who commenced on 24 February 2023, was announced on 31 October 2022. D. Yates will retire on 30 April 2023 after completion of B. Fidler's induction and the handover process. The recruitment process was led by the CEO, who was advised by Russell Reynolds. This involved a thorough discussion of the skills, experience and leadership behaviours required. Russell Reynolds has no other connections to Bodycote plc. There were no further changes to the Board structure during the year.

As in previous years the Committee spent time during 2022/23 considering the important topic of succession planning across the business. The Committee received papers on Executive Director and Senior Management succession (this includes members of the Executive Committee and all Senior Management roles in the business). The plans identify immediate successors for these roles and identify 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 all types of diversity.

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.

# Report of the Nomination Committee continued

Chart removed

## Main activities of the Nomination Committee

In 2022 the Committee met formally six times and reviewed the composition and skills of the Board, with a view to considering the current and future skills and experience that the Board might require.

The Committee discussed Board diversity and reviewed the performance of the Group Chief Executive and other senior executives.

In particular, the Board discussed its membership with respect 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 60 as part of the Corporate Governance statement. We are pleased to report that during 2022 the female representation on the Board was 33%.

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.

Following the external Board evaluation in 2021, the Board agreed to undertake an internal evaluation during 2022. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations from the 2022 internal Board evaluation such as a continued review of the strategy including ESG are being addressed and focusing on people and succession planning are topics that are ongoing.

In December 2022, the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for dealing with Board issues including drawing up a training and/or induction programme for the Directors. The terms of reference of the Committee were reviewed in conjunction with the Model Terms of Reference issued by the Chartered Governance Institute UK & Ireland. The biographical details of the Directors serving in 2022 can be found on pages 46 and 47. 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. E. Lindqvist and D. Yates will retire from the Board and not stand for re-election at the 2023 AGM. C. Gordon will take on the Chair of the Remuneration Committee with effect from 31 May 2023. Accordingly, the Committee has recommended to the Board that all current Directors of the Company with the exception of E. Lindqvist and D. Yates be proposed for re-election at the forthcoming Annual General Meeting.

As Chair of the Committee, I will be available at the Annual General Meeting on 31 May 2023, to answer questions 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

17 March 2023

# Report of the Audit Committee

| Committee membership | No. of meetings 2022: 5 | Main committee responsibilities |
|---|---|---|
| **Director** | **Attendance** | – Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls. |
| K.J. Boyd (Chair) | 5 | – Monitor the integrity of the financial statements including annual and half yearly reports, trading updates and any other formal announcements relating to its financial performance. Review and report to the Board on significant financial reporting issues and judgements. |
| I.B. Duncan | 5 | – 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. |
| E. Lindqvist | 5 | – Monitor and review the adequacy and effectiveness of the Group's internal financial control and risk management systems. |
| P. Larmon | 5 | – 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. |
| L. Chahbazi | 5 | – 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. |
| C. Gordon *as of 1 June 2022* | 2 | – 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 my first report as Chairman of the Audit Committee. 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.

I would like to thank Ian Duncan for his contribution as Chairman over the past seven years. We have worked together this year to ensure a smooth transition.

This report contains information on the activities undertaken by the Committee during the year which has enabled it to monitor and assess the effectiveness of the Group's control environment.

Kevin Boyd
Chairman of the Audit Committee

# Report of the Audit Committee continued

## Committee membership and meetings

The Audit Committee is comprised entirely of independent Non-Executive Directors. Their biographical details are shown on pages 46 and 47, and their remuneration on page 73. The Group Company Secretary is the secretary to the Audit Committee.

Kevin Boyd was appointed as Chairman of the Audit Committee in May 2022. Mr Boyd is a Chartered Accountant and a Chartered Engineer with substantial experience in senior finance roles. The Board considers that Kevin 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 both executive and non-executive capacities of multinational industrial companies and are considered to have competencies relevant to their duties.

The Audit Committee met five times during 2022 and in March 2023; all members attended all the meetings. The Committee Chairman also invited the Board Chair, Group Chief Executive, Group Chief Financial Officer, Group Director of Finance and Group Head of Internal Audit to attend all regular meetings. Other Senior Management from the Group were also invited, as appropriate, to attend regular 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.

Kevin Boyd also held preparatory meetings separately with the external auditor, the Group 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) met with the Audit Committee without the executives present.

## Main activities of the Committee during the year

The Committee is 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
- consideration of the topics raised by the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) proposals which includes work on internal controls, sources of assurance, identifying fraud risks and reporting of resilience.

Reports from management were reviewed on significant matters, including litigation, accounting, 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 2022 financial statements is set out in the table below.

During the year, the Financial Reporting Council's (FRC) Corporate Reporting Review team carried out a review of the Group's 2021 annual report and financial statements as part of the usual review cycle of publicly listed annual reports and accounts, with no questions or queries raised. The FRC's letter only considered compliance with reporting requirements and does not verify the accounts nor provide any assurance that the annual report and financial statements are correct in all material respects and accepts no liability for reliance on their review by the Group or any third party, including but not limited to, investors and shareholders. The FRC noted certain matters where it believes users of the annual report would benefit from improvements in existing disclosures. The Committee has reviewed these matters and has ensured that they have been addressed through amendments to the current year disclosures.

### 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 2022 going concern and viability statements and challenged the 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 recently 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 assessments of the Group's financial position. 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 and accurate information, a collaborative approach between all parties required to contribute to the report and 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*<br>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.<br><br>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.<br><br>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.<br><br>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 2022. |
| *Restructuring, reorganisation and environmental provisions*<br>Assumptions and judgement are exercised in the development of restructuring, reorganisation 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*<br>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.<br><br>Provisions are made based on the tax laws in the relevant country and the expected outcomes of any negotiations or settlements.<br><br>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.<br><br>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.<br><br>The Committee has focused on reviewing, understanding and challenging the Group's critical tax risks and management's assessment and valuation of these risks.<br><br>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.<br><br>The Committee was satisfied with the Group's tax approach and with the accounting treatment and disclosure in respect of tax exposures. |
| *Retirement benefits schemes*<br>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 27 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.<br><br>The Committee agreed to the treatment and the corresponding disclosures on these matters. See note 27 of the consolidated financial statements. |

# Report of the Audit Committee continued

**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. This year, 2022, was Mr. Simon Morley's fourth year as the lead audit partner.

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.

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 £2.2m.

Key audit matters and the audit approach to these matters are discussed in the Independent Auditor's Report (pages 84 to 91), 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 engagement partner, other partners and the audit team;
- audit approach and scope, including identification of risk areas;
- execution of the audit;
- interaction with management;
- communication with, and support to, the Audit Committee;
- insights, management letter points, added value and reports; and
- independence, objectivity and scepticism.

An assessment questionnaire is completed by each member of the Committee, the Group Chief Executive, the Group Chief Financial Officer and other senior finance executives. The feedback from the process is considered by the Audit Committee and provided to the external auditor and management. The 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) 2021/22 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. After considering all of the relevant matters, the Committee concluded that the external audit had been effective and objective. During 2022, 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.

**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 2022 Audit Committee and was confirmed again in March 2023. 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 2022 were for the half year interim review and are shown in note 2 of the consolidated financial statements representing 5% (2021: 8%) of the audit fee.

## Internal audit

The internal audit plan for 2022 was presented to the Committee in October 2021. The plan took into account the Group's strategic objectives and risks and provides 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 2022 was focused on providing assurance over the Group's principal risks and key financial and IT controls. IT controls, including the ongoing ERP implementation programme, and cyber security risk remain continued areas of focus and are reviewed annually.

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.

Additional financial control assurance has been obtained through a number of control self-assessments. Internal auditors have received self-certification from every plant that internal controls have been complied with and 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 teams.

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 2022. Refer to the Principal Risks and Uncertainties report on pages 28 to 32.

## Internal control

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 concluded the system to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC (September 2014). Refer to page 58 for further information.

## Committee evaluation

The Committee's activities formed part of an internal review of Board effectiveness which was undertaken in July 2022 and approved by the Board in October 2022. 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
Chairman of the Audit Committee
17 March 2023

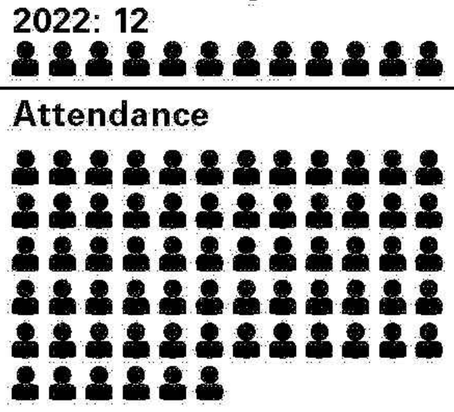
# Board report on remuneration

**Committee membership**

**Director**
E. Lindqvist (Chair)
I.B. Duncan
P. Larmon
L. Chahbazi
K. Boyd
C. Gordon *(as of 1 June 2022)*

**No. of meetings 2022: 12**

**Attendance**



**Main committee responsibilities**

- Responsibility for setting and reviewing the remuneration policy for all 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 Director 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

As Chair of the Remuneration Committee ('the Committee') and on behalf of the Board of Directors, I am pleased to present our Board report on remuneration for 2022.

The 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 68-69).
- An 'at a glance' of the remuneration decisions taken during the year (page 70).
- The Annual Report on Remuneration, which describes how our Directors' Remuneration Policy was applied during 2022 (pages 68-82).

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 31 May 2023 Annual General Meeting. The Committee addressed the principles prescribed in Provision 40 of the 2018 UK Corporate Governance Code when determining the Policy (see page 81).

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

Dominique Yates will step down as Chief Financial Officer on 30 April 2023. Ben Fidler was appointed as Chief Financial Officer designate and as a member of the Board on 24 February 2023, and will take up the role of Chief Financial Officer on 1 May 2023. Ben will be based in the UK. The treatment of Dominique Yates' remuneration arrangements is set out on page 77. The Committee has agreed the following remuneration arrangements for Ben Fidler:

- An annual salary of £500,000 which, taking into account the highly competitive market for talent and quality of the candidate, is competitively positioned against industry peers.
- 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 150% of base salary and a maximum Bodycote Incentive Plan ("BIP") opportunity of 175% of base salary, which is in line with the Remuneration Policy.

The Committee has agreed to buy out Ben Fidler's 2022 annual bonus and in-flight share incentives which were forfeited by him on leaving his previous employer. The buy-out awards will be structured on a like-for-like basis and are therefore dependent on the performance of his previous employer. Final details of the buy-out awards will be determined during 2023 and will therefore be disclosed in the 2023 Directors' Remuneration Report.

## Business performance and incentive outcomes for 2022

The Group performed well during the year with good progress against the Group strategy. We enjoyed particularly strong revenue growth in our Civil Aerospace business and our Emerging Markets. Our ADE and AGI focused Specialist Technologies revenues continue to outperform their Classical Heat Treatment revenue development, in line with our strategy.

This strong revenue performance and the fact that the Group successfully passed on inflationary impacts to its customers resulted in a 19% increase in headline earnings per share to 42.7p. While there are obvious geopolitical and macroeconomic uncertainties, we see the prospect of ongoing medium-term volume growth in each of our key market sectors and geographies.

We believe that the incentive payouts we have made to our Executive Directors are aligned with the overall performance of the Company. 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

The 2022 annual bonus award was based on headline operating profit (77%), headline operating cash flow (10%) and a personal scorecard (13%). Headline operating profit and cash flow are the key internal financial metrics currently and therefore form the core annual bonus metrics. Headline operating profit at constant currency increased by 19% to £112.5m and headline operating cash flow at constant currency declined by 10% to £109.8m.

The personal scorecard primarily reflects how Executive Directors have delivered on our strategic goals and specific critical initiatives. For further details please see the personal scorecards on page 75.

The annual bonus paid out at 61% of maximum for the Group Chief Executive and 59% of maximum for the Chief Financial Officer. In accordance with the policy, 35% will be deferred into shares for three years. Please see page 77 for the treatment of Dominique Yates' deferred share awards on stepping down as Chief Financial Officer.

## Bodycote Incentive Plan (BIP)

The 2020 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 2022.

Whilst ROCE and EPS performance improved compared to last year, only the ROCE threshold was achieved. The headline EPS threshold target was not achieved. The overall outcome is 1.4% of the maximum performance.

## Shareholder and employee engagement

The Group obtained a 77% vote in favour in respect of approval of the 2022 Directors' Remuneration Policy. While the Committee is pleased that the Policy was approved by shareholders, it also acknowledges the views of the shareholders who opposed the resolution. The principal concern was that our Policy now explicitly states that salary increases and pension contributions for Executive Directors are determined considering salary increases and pension contributions for the wider Bodycote workforce in the country the Executive Director lives and/or works as well as the wider Bodycote workforce across Western Europe including the UK.

The Committee wrote to the Company's largest shareholders and key proxy agencies following the 2022 Annual General Meeting (for further information please see the statement of shareholder voting on page 82) to confirm that this is not a change in how we remunerate our Executive Directors and rather clarifies the approach applied by the Committee for several years. The Committee continues to strongly consider the approach to be appropriate as this reflects pay practices and salary inflation in the countries in which the Executive Directors live and work, as well as having regard to salary increases awarded to Group employees across Western Europe including the UK. The Committee invited comments from the Company's largest shareholders to ensure that the rationale for the approach was fully understood.

Concerning the 2022 inflationary increase for the CEO, Czech salary inflation of 6% was moderated by the Western European weighted average budgeted wage inflation of 3.2% and the weighted average budgeted CIP inflation of 4.2% in arriving at a figure of 4%.

We operate Employee Engagement Groups (see page 54 of the Corporate Governance Statement), where a range of topics are actively discussed with employees, including executive remuneration and employment conditions of all employees. Feedback from the Employee Engagement Groups, alongside information provided by the Human Resources function, on pay and conditions across the Group and employee satisfaction surveys is considered by the Committee as part of its discussions and decision-making on executive remuneration.

## Application of Policy for 2023

An overview of our intended application of Policy for 2023 is set out on page 70 within the 'At a Glance' section.

## 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.

This year will also be my last as Remuneration Committee Chair as I will not be seeking re-election at the 2023 AGM. I would like to thank the Committee members for their continued support and will work with my successor, Cynthia Gordon, to ensure a smooth handover.

I look forward to receiving your support at our 2023 Annual General Meeting, where I will be pleased to answer any questions you may have on this report or any of the Committee's activities.

E. Lindqvist
Chair of the Remuneration Committee
17 March 2023

# Board report on remuneration continued

## Remuneration at a glance

### Total single figure table for Executive Directors

| | | Fixed pay | | | | Variable pay | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial year | Salary/ fees (£000) | Pension (£000) | Taxable benefits[1] (£000) | Subtotal (£000) | Annual bonus[2] (£000) | BIP (£000) | BIP value at grant price (£000) | Share price gain on vesting of BIP between grant and vest date | Subtotal (£000) | **Total (£000)** |
| **Executive Directors** | | | | | | | | | | | |
| S.C. Harris | 2022 | 634 | 149 | 41 | 824 | 767 | 16[3] | 14 | –[5] | 783 | **1,607** |
| | 2021 | 609 | 146 | 40 | 795 | 1,174 | –[4] | – | – | 1,174 | **1,969** |
| D. Yates | 2022 | 425 | 100 | 29 | 554 | 374 | 12[3] | 10 | –[5] | 386 | **940** |
| | 2021 | 420 | 101 | 28 | 549 | 606 | –[4] | – | – | 606 | **1,155** |

Notes accompanying the total single figure table for Executive Directors

1 Taxable benefits consist of company car (or allowance), family level private medical insurance, life insurance cover and sick pay. Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the Directors have received grossed-up compensation for this to leave him/her in a neutral position.

2 35% of the annual bonus will be deferred in shares.

3 The 2022 figures relate to BIP awards granted on 23 March 2020 with a performance period ended on 31 December 2022. Shares vested as the targets were achieved at 1.4% of the maximum opportunity. This includes dividend equivalents. For 2022 dividend equivalents for S.C. Harris were £1,550 and for D. Yates were £1,118. An estimated market price at vesting was used of £5.49 calculated as the three months' average from 1 October to 31 December 2022.

4 The 2021 figures relate to BIP awards granted on 26 March 2019 with a performance period ended on 31 December 2021. Based on performance against the targets the awards lapsed in full.

5 Share price gains on vesting of BIP are under £500.

## Incentive outcomes for 2022

### Annual bonus

The Group Chief Executive and Chief Financial Officer earned a bonus equal to 61% and 59% of maximum respectively.

| | | | | | Outcome | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | S.C. Harris | | D. Yates | |
| | % of award | Threshold | Target | Maximum | Actual performance achieved[1] | % of max | % of salary | % of max | % of salary |
| Headline operating profit | 77% | £100m | £115m | £125m | £112.5m | 55.0% | 84.7% | 55.0% | 63.5% |
| Headline operating cash flow | 10% | £100m | £114m | £114m | £109.8m | 69.8% | 14.0% | 69.8% | 10.5% |
| Personal score card | 13% | | | | n/a | 86.0% | 22.3% | 72.0% | 14.0% |
| | | | | | **Total** | **60.5%** | **121.0%** | **58.7%** | **88.0%** |

1 Figures quoted are at constant currency rates.

### BIP

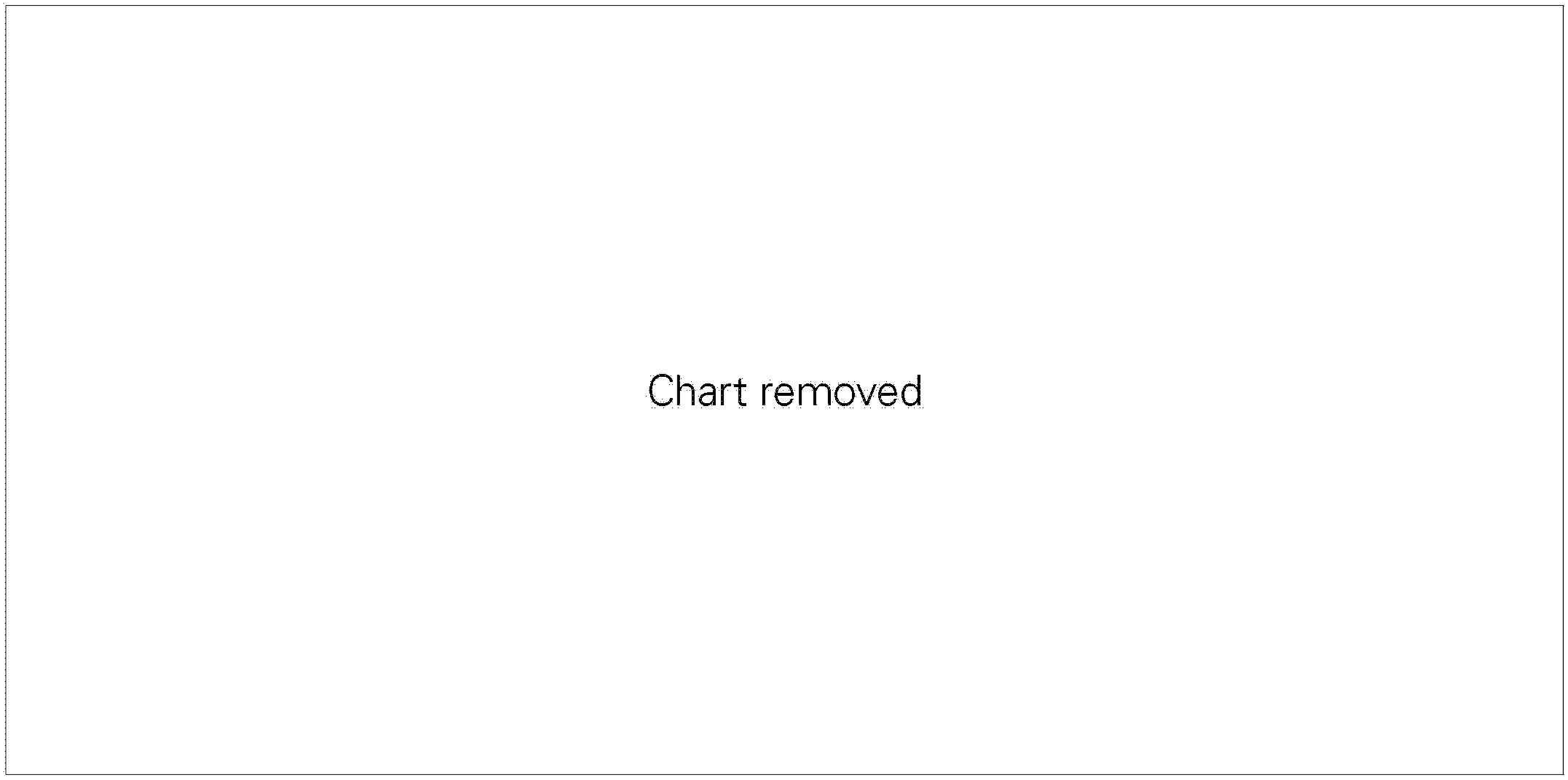
The underpin target of 37.4p together with the ROCE threshold target were achieved. The headline EPS threshold target was not achieved. The vesting outcome amounted to 1.4% of the maximum opportunity based on performance against ROCE targets. The performance targets and actual performance are set out in the table below.

| | ROCE[1] | | Headline EPS | |
|---|---|---|---|---|
| | **Performance target** | **Vesting of element (% of maximum)** | **Performance target** | **Vesting of element (% of maximum)** |
| Maximum performance | 19.5% | 100% | 62p | 100% |
| Threshold performance | 14.0% | 0% | 44p | 0% |
| Performance achieved | 14.2% | 2.9% | 42.7p | 0% |

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital employed includes the acquired goodwill existing as at the start of the performance period (1 January 2020) only.

## Illustration of application of Policy for 2023

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Group's strategic ambitions and does not incentivise inappropriate risk taking. This is reviewed on an annual basis. The chart below sets out illustrations of the value of each Executive Director's remuneration package, should they achieve minimum, on-target or maximum performance.




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

| | |
|---|---|
| Minimum performance | – Fixed remuneration only |
| On-target performance | – Fixed remuneration<br>– 60% of maximum annual bonus is earned<br>– 50% of maximum BIP vests |
| Maximum performance | – Fixed remuneration<br>– 100% of maximum annual bonus is earned<br>– 100% of maximum BIP vests |
| Maximum performance +50% share price growth | – As per the maximum performance illustration, but also assumes for the purposes of the BIP that share price increases by 50% over the vesting period |

1 Fixed remuneration comprises base salary as at 1 January 2023, benefits received in 2022 and pension opportunity applying from 1 January 2023.

# Board report on remuneration continued

## Implementation of the Policy in 2023

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 2023.

| | Key features | Implementation for 2023 |
|---|---|---|
| **Salary** | – Base salaries are reviewed in January every year<br>– Salary reviews are based on role, experience, performance, internal increases and the external market | – Stephen Harris receives a salary of £665,245, an increase of 5%.<br>– Dominique Yates receives a salary of £446,562, an increase of 5%.<br>– In determining the salary increases for Stephen Harris and Dominique Yates, the Committee had regard to the average increases awarded to employees across Czech Republic and Switzerland (the respective countries where Stephen Harris and Dominique Yates live and work) and Western Europe, including the UK. The average increases awarded to employees was 15.1% across Czech Republic, 2.2% across Switzerland, 8.3% across the UK and 6% across Western Europe. With these increases in mind, the Committee considered a 5% increase for Stephen Harris and Dominique Yates to be appropriate. The Committee also considered Dominique Yates' commitment to ensure a successful transition of the Chief Financial Officer role, including agreeing to stay in role until 30 April 2023, when determining his salary increase.<br>– Ben Fidler was appointed on a salary of £500,000. |
| **Benefits** | – A range of cash benefits and benefits in kind | – In line with benefits provided in 2022. |
| **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.<br>– Dominique Yates receives 23.5% of base salary. This is aligned with the company pension contributions of the Switzerland workforce, the country where he lives and works.<br>– Ben Fidler receives a cash equivalent equal to 10% of base salary. This is aligned with the company pension contributions of the UK workforce, the country where he lives and works. |
| **Annual bonus** | – Maximum opportunity of 200% and 150% of base salary for the Group Chief Executive and Chief Financial Officer respectively<br>– At least 70% of the bonus will be based on financial performance with the remainder based on non-financial strategic and/or personal metrics<br>– 35% of any bonus earned is deferred into shares for three years, conditional on continued employment | – Maximum opportunity of 200% of base salary for Stephen Harris.<br>– Maximum opportunity of 150% of base salary for Dominique Yates, pro-rated for time served as Chief Financial Officer during the year.<br>– Maximum opportunity of 150% of base salary for Ben Fidler.<br>– The annual bonus is split 77% in respect of headline operating profit, 10% in respect of headline operating cash flow and 13% on personal strategic objectives.<br>– Performance targets are considered commercially sensitive and will be fully disclosed in the 2023 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. Dominique Yates' opportunity will be pro-rated for time served as Chief Financial Officer during the vesting period.<br>– Awards are based on performance against ROCE (50%) and headline EPS (50%) targets over a three-year period ending 31 December 2025.<br>– Performance targets are set out below. |
| **Shareholding requirement** | – Executive Directors are required to build up a holding of 200% of base salary over five years<br>– Post-employment shareholding requirements also apply | – Stephen Harris and Dominique Yates have met the shareholding requirement.<br>– Ben Fidler will work towards building his shareholding. |

## 2023 BIP awards

The targets for the 2023 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[1] (50% of award) | | Headline EPS (50% of award) | |
|---|---|---|---|---|
| | **Performance target** | **Vesting of element (% of maximum)** | **Performance target** | **Vesting of element (% of maximum)** |
| Maximum performance | 20.0% | 100% | 70.0p | 100% |
| Threshold performance | 14% | 0% | 56.0p | 0% |

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital employed includes the acquired 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. This includes consideration of any potential 'windfall gains' at the point of vesting.

## Annual Report on Remuneration

This section provides details of remuneration outcomes for Directors who served during the financial year ended 31 December 2022. This section of the report is audited while the Annual Report on Remuneration is subject to an advisory vote by shareholders at the 2023 Annual General Meeting.

**Auditable section**

**Total single figure table**

| | | Fixed pay | | | | Variable pay | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial year | Salary/ fees (£000) | Pension (£000) | Taxable benefits[1,5] (£000) | Subtotal (£000) | Annual bonus[4] (£000) | BIP (£000) | BIP value at grant price (£000) | Share price gain on vesting of BIP between grant and vest date | Subtotal (£000) | **Total (£000)** |
| **Executive Directors** | | | | | | | | | | | |
| S.C. Harris | 2022 | 634 | 149 | 41 | 824 | 767 | 16[2] | 14 | –[9] | 783 | **1,607** |
| | 2021 | 609 | 146 | 40 | 795 | 1,174 | –[3] | – | – | 1,174 | **1,969** |
| D. Yates | 2022 | 425 | 100 | 29 | 554 | 374 | 12[2] | 10 | –[9] | 386 | **940** |
| | 2021 | 420 | 101 | 28 | 549 | 606 | –[3] | – | – | 606 | **1,155** |
| **Non-Executive Directors** | | | | | | | | | | | |
| D. Dayan[6] | 2022 | 275 | – | – | 275 | – | – | | | – | **275** |
| | 2021 | – | – | – | – | – | – | | | – | **–** |
| P. Larmon | 2022 | 73 | – | – | 73 | – | – | | | – | **73** |
| | 2021 | 71 | – | 4 | 75 | – | – | | | – | **75** |
| E. Lindqvist | 2022 | 75 | – | – | 75 | – | – | | | – | **75** |
| | 2021 | 71 | – | 2 | 73 | – | – | | | – | **73** |
| I.B. Duncan[8] | 2022 | 77 | – | – | 77 | – | – | | | – | **77** |
| | 2021 | 81 | – | 0 | 81 | – | – | | | – | **81** |
| L. Chahbazi | 2022 | 62 | – | – | 62 | – | – | | | – | **62** |
| | 2021 | 61 | – | 0 | 61 | – | – | | | – | **61** |
| K. Boyd[8] | 2022 | 71 | – | – | 71 | – | – | | | – | **71** |
| | 2021 | 61 | – | 0 | 61 | – | – | | | – | **61** |
| C. Gordon[7] | 2022 | 36 | – | – | 36 | – | – | | | – | **36** |
| | 2021 | – | – | – | – | – | – | | | – | **–** |

Notes accompanying the total single figure table

1 Taxable benefits consist of company car (or allowance), family level private medical insurance, life insurance cover and sick pay. Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the Directors have received grossed-up compensation for this to leave him/her in a neutral position.

2 The 2022 figures relate to BIP awards granted on 23 March 2020 with a performance period ended on 31 December 2022. Shares vested as the targets were achieved at 1.4% of the maximum opportunity. This includes dividend equivalents. For 2022 dividend equivalents for S.C. Harris were £1,550 and for D. Yates were £1,118. An estimated market price at vesting was used of £5.49 calculated as the three months' average from 1 October to 31 December 2022.

3 The 2021 figures relate to BIP awards granted on 26 March 2019 with a performance period ended on 31 December 2021. Based on performance against the targets the awards lapsed in full.

4 35% of the annual bonus will be deferred in shares and is subject to the conditions stated in the Remuneration policy approved by shareholders from time to time.

5 Four of the Non-Executive Directors received benefits of less than £500 in 2021.

6 D. Dayan was appointed to the Board on 1 January 2022.

7 C. Gordon was appointed to the Board on 1 June 2022.

8 I. Duncan stepped down as Chair of Audit Committee on 25 May 2022 and K. Boyd was appointed Chair of the Audit Committee on 25 May 2022.

9 Share price gains on vesting of BIP are under £500.

# Board report on remuneration continued

**Salary**

The base salaries of the Executive Directors are reviewed in January every year. In determining the salary increases for Stephen Harris and Dominique Yates, the Committee had regard to the average increases awarded to employees across Czech Republic and Switzerland (the countries where Stephen Harris and Dominique Yates live and work) and Western Europe. The average increases awarded to employees was 15.1% across Czech Republic, 2.2% across Switzerland, 8.3% across the UK and 6% across Western Europe. With these increases in mind, the Committee considered a 5% increase for Stephen Harris and Dominique Yates to be appropriate. The Committee also considered Dominique Yates' commitment to ensure a successful transition of the Chief Financial Officer role, including agreeing to stay in role until 30 April 2023, when determining his salary increase.

| Executive Director | Salary from 1 January 2023 | Salary from 1 January 2022 | Salary increase |
|---|---|---|---|
| S.C. Harris | £665,245 | £633,567 | 5% |
| D. Yates | £446,562 | £425,297 | 5% |

**Pension**

The Executive Directors received a pension contribution or salary supplement in lieu of pension at a rate of 23.5% of base salary during 2022.

The rate of 23.5% of base salary remains unchanged for 2023 and is aligned with the company pension contributions of the wider Bodycote workforce in the country that the Executive Directors work and live in.

**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 | £24,524 |
| D. Yates | £12,000 | £1,200 | £15,304 |

## Incentive outcomes for 2022

**Annual bonus**

The maximum annual bonus opportunity for the Group Chief Executive and Chief Financial Officer was 200% and 150% of base salary respectively. The annual bonus 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 2022, the Group Chief Executive earned a bonus equal to 60.5% of maximum and the Chief Financial Officer 58.7% of maximum. 35% of the amount earned will be deferred into shares for three years subject to continued employment. See page 77 for the treatment of Dominique Yates' deferred share awards on stepping down as Chief Financial Officer.

The performance targets and actual performance are set out below.

| | | | | | | Outcome | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | S.C. Harris | | D. Yates | |
| | % of award | Threshold[2] | Target[2] | Maximum[2] | Actual performance achieved[1] | % of max | % of salary | % of max | % of salary |
| Headline operating profit | 77% | £100m | £115m | £125m | £112.5m | 55.0% | 84.7% | 55.0% | 63.5% |
| Headline operating cash flow | 10% | £100m | £114m | £114m | £109.8m | 69.8% | 14.0% | 69.8% | 10.5% |
| Personal score card | 13% | | | | n/a | 86.0% | 22.3% | 72.0% | 14.0% |
| | | | | | **Total** | **60.5%** | **121.0%** | **58.7%** | **88.0%** |

1 Figures quoted are at constant currency rates.

2 Payout is pro-rated between threshold, target and maximum. Achievable awards are as follows: Headline operating profit: threshold 30%, target 60%, maximum 100% and Headline operating cash flow: 0% threshold and 100% for target and maximum.

## Personal scorecards

| S.C. Harris | | Link to strategy |
|---|---|---|
| **Overview** | For 2022 the CEO's objectives were: leadership of the Enterprise Resource Planning (ERP); leadership of the Group Executive including recruitment and on-boarding of the new CFO and two other Executives; drive the Group Strategy forward; systematically improve asset management and capital investment implementation; establish SBTi targets and accelerate the environmental strategy and carbon reduction programme. | |
| **Key achievements in the year** | – Progress was made with the ERP implementation in 2022.<br>– All key executives were recruited. The new CFO started in February 2023.<br>– Group Strategy was validated and a number of initiatives undertaken.<br>– Asset management and capital investment implementation is much improved.<br>– Carbon reduction targets were submitted to SBTi and accepted. Numerous carbon reduction projects are well underway. | 1 3 5<br>2 4 6<br>5<br>1 |
| **Rating** | The Committee assessed achievement for all personal scorecard objectives with an overall rating of 86%. | |
| **D. Yates** | | |
| **Overview** | For 2022 the CFO's objectives were: leadership of the Group Finance function; leadership of the ERP including progress on cost accounting and data warehousing; on-boarding of a successor including successful transition. | |
| **Key achievements in the year** | – The Group Finance function has performed well and has progressed on multiple fronts.<br>– ERP implementation has progressed in 2022.<br>– The CFO designate was on-boarded at the end of February 2023 and the transition is well underway. | 5<br>5<br>5 |
| **Rating** | The Committee assessed achievement for all personal scorecard objectives with an overall rating of 72%. | 5 |

### Bodycote Incentive Plan (BIP)

BIP awards granted on 23 March 2020 had a three-year performance period ended 31 December 2022, 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 37.4p, then no awards would vest.

The underpin target of 37.4p together with the ROCE threshold target were achieved. The headline EPS threshold target was not achieved. The vesting outcome amounted to 1.4% of the maximum opportunity based on performance against ROCE targets.

The threshold and maximum targets along with performance achieved and the vesting outcome are set out in the table below.

| | ROCE[1] | | Headline EPS | |
|---|---|---|---|---|
| | **Performance target** | **Vesting of element (% of max)** | **Performance target** | **Vesting of element (% of max)** |
| Maximum performance | 19.5% | 100% | 62p | 100% |
| Threshold performance | 14.0% | 0% | 44p | 0% |
| **Performance achieved** | **14.2%** | **2.9%** | **42.7p** | **0%** |

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital employed includes the acquired goodwill existing as at the start of the performance period (1 January 2020) only.

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

# Board report on remuneration continued

The table below sets out the 2020 BIP outcome for S.C Harris and D. Yates.

| | Number of shares granted | End of performance period | % award vesting | Number of shares vesting | Dividend equivalents | Total estimated value of awards on vesting | Proportion of award attributable to share price appreciation since grant[1] | Vesting date | End of holding period |
|---|---|---|---|---|---|---|---|---|---|
| S.C. Harris | 183,611 | 31 Dec 2022 | 1.4% | 2,623 | £1,550 | £15,950 | £446 | 20 Mar 2023 | 21 Mar 2025 |
| D. Yates | 132,483 | 31 Dec 2022 | 1.4% | 1,892 | £1,118 | £11,505 | £322 | 20 Mar 2023 | 21 Mar 2025[2] |

1 Market price at date of award of £5.32 as a three-day average share price following the announcement of results for 2019 (12, 13 and 16 March 2020). An estimated market price at vesting was used of £5.49 calculated as the three months' average from 1 October to 31 December 2022.

2 D Yates will step down as Chief Financial Officer on 30 April 2023, post-employment shareholding requirements apply.

### BIP awards granted during the financial year

Awards consisting of conditional shares were granted to both Executive Directors, equivalent in value to 175% of their base salaries on 28 March 2022 and will vest after three years in March 2025. The performance period will end on 31 December 2024. 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[1] | | Headline EPS | |
|---|---|---|---|---|
| | Performance target | Vesting of element (% of max) | Performance target | Vesting of element (% of max) |
| Maximum performance | 20.0% | 100% | 63.9p | 100% |
| Threshold performance | 13.5% | 25% | 46.0p | 25% |

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 2022) only.

If headline EPS at the end of the performance period is below 39p, then no awards will vest. 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 | 28 March 2022 | 153,197 | £6.959 | £1,066,098 |
| D. Yates | 28 March 2022 | 105,683 | £6.959 | £735,448 |

1 The three-day volume weighted average share price following the announcement of results for 2021 (14, 15 and 16 March 2022).

The Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance. This includes consideration of any potential 'windfall gains' at the point of vesting.

## Chair and Non-Executive Directors' fees

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

| | Roles | Fee for 2021 | Fee for 2022[6] | % increase in NED role fees |
|---|---|---|---|---|
| D. Dayan[1] | – Non-Executive Chair<br>– Chair of Nomination Committee | – | **£275,000** | n/a |
| P. Larmon | – Non-Executive Director<br>– Chair of Employee Engagement Groups<br>– Member of Audit, Remuneration and Nomination Committees | £70,534 | **£72,650** | 3.0% |
| E. Lindqvist[5] | – Non-Executive Director<br>– Chair of Remuneration Committee<br>– Member of Audit and Nomination Committees | £70,534 | **£75,359** | 6.8% |
| I.B. Duncan[3] | – Non-Executive Director<br>– Member of Audit, Remuneration and Nomination Committees<br>– Senior Independent Director | £80,525 | **£76,983** | (4.4%) |
| L. Chahbazi | – Non-Executive Director<br>– Member of Audit, Remuneration and Nomination Committees | £60,543 | **£62,359** | 3.0% |
| K. Boyd[4,5] | – Non-Executive Director<br>– Chair of Audit Committee<br>– Member of Audit, Remuneration and Nomination Committees | £60,543 | **£71,025** | 17.3% |
| C. Gordon[2] | – Non-Executive Director<br>– Member of Audit, Remuneration and Nomination Committees | – | **£62,359** | n/a |

1 D. Dayan was appointed as Chair to the Board on 1 January 2022.

2 C. Gordon was appointed to the Board on 1 June 2022 and earned fees of £36,376 for the 7-month period in 2022. The amount shown in this table represents the full annual fee.

3 The 2022 total for I.B. Duncan includes an additional fee for his role as Audit Committee Chair from 1 January 2022 to 30 April 2022 and his SID fee for the full year.

4 The 2022 total for K. Boyd includes an additional fee for his role as Audit Committee Chair from 1 May 2022 to 31 December 2022.

5 Both the Audit Committee Chair and the Remuneration Committee Chair fees were increased from £9,991 in 2021 to £13,000 in 2022 to reflect the additional workload.

6 Taxable benefits are stated in the single figure table above.

Non-Executive Director fees were increased for 2022 based on market benchmarking against Non-Executive Director fees in the FTSE 250 and other companies of similar size and complexity.

At 31 December 2022 the aggregate annual fees for all Non-Executive Directors, including the Chair, was £695,735, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £1,000,000 p.a.

The Non-Executive Director fees, excluding the Chair, comprise the following elements:

| | Fees for 2022 |
|---|---|
| Base fee | £62,359 |
| Remuneration Committee Chair/Audit Committee Chair | £13,000 |
| Senior Independent Director | £10,291 |
| Chair of Employee Engagement Groups | £10,291 |

## Board changes in 2022

Dominique Yates, Chief Financial Officer, advised the Board in February 2022 of his intention to retire from the Company and the Board. He will step down and leave the Company on 30 April 2023. The treatment of Dominique Yates' remuneration arrangements is set out in the table below. This has been agreed by the Committee, taking into account his contribution to the Group over the last seven years and his commitment to ensure a successful transition of the Chief Financial Officer role. There were no payments for loss of office in 2022.

# Board report on remuneration continued

| Element | Agreed treatment |
|---|---|
| Base salary, benefits and pension | Will continue to receive his salary, benefits and pension until he steps down as Chief Financial Officer. |
| Annual bonus | Will be eligible to receive a bonus equal to 150% of salary for the year ended 31 December 2023 pro-rated for time served as Chief Financial Officer during the year. Any bonus earned will be paid at the usual time in 2024, following the assessment of the Group's performance for the full 2023 year. |
| Deferred bonus awards | Unvested deferred bonus awards will vest in full following him stepping down as Chief Financial Officer. |
| BIP awards | Unvested BIP awards will:<br>– continue to vest in accordance with their normal vesting timetable, subject to the achievement of the relevant performance metrics;<br>– be pro-rated for time served as Chief Financial Officer during the relevant vesting periods; and<br>– will be granted a BIP award in 2023 equal to 175% of salary pro-rated for time served as Chief Financial Officer during the vesting period.<br>Any shares that vest will be subject to a two-year post-vesting holding period. |

Dominique Yates will be required to comply with the post-employment shareholding guidelines.

**Payments to past Directors**

No payments to past Directors were made during the year.

## 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 deferred shares under the annual bonus (as they are not subject to further 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 2022, including any interests awarded under the annual bonus or BIP, are presented below along with whether Executive Directors have met the shareholding guidelines. Share awards under the annual bonus and the BIP are conditional on continued employment until vesting.

| | Counted towards the shareholding requirement | | Outstanding interests (not counted towards the shareholding requirement) | |
|---|---|---|---|---|
| | Beneficially owned | Deferred shares granted under the annual bonus[1] | Shares subject to performance conditions BIP[2] | Shareholding requirement met as at 31 December 2022[3] |
| **Executive Directors** | | | | |
| S.C. Harris (200% of salary min holding requirement) | 445,443 | 96,077 | 467,915 | Yes |
| D. Yates (200% of salary min holding requirement) | 329,697 | 50,196 | 328,610 | Yes |
| **Non-Executive Directors** | | | | |
| D. Dayan | 45,500 | – | – | n/a |
| P. Larmon | 5,000 | – | – | n/a |
| E. Lindqvist | 12,200 | – | – | n/a |
| I.B. Duncan | – | – | – | n/a |
| L. Chahbazi | – | – | – | n/a |
| K. Boyd | 6,000 | – | – | n/a |
| C. Gordon | – | – | – | n/a |

1 Figures relate to deferred shares granted in 2020 and 2022.

2 Figures relate to unvested awards granted under the BIP in 2020, 2021 and 2022. The BIP awards granted on 23 March 2020 vested at 1.4% of the maximum opportunity in March 2023.

3 Closing share price on 31 December 2022 was £5.69.

As at 17 March 2023, 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 2022 are as follows.

| | | Interests as at 1 January 2022 | Granted in year | Vested in year | Lapsed in year | Interests as at 31 December 2022[1] |
|---|---|---|---|---|---|---|
| **BIP** | S.C. Harris | 429,950 | 153,197 | – | 115,232 | 467,915 |
| | D. Yates | 306,071 | 105,683 | – | 83,144 | 328,610 |
| **Deferred bonus shares[2]** | S.C. Harris | 66,608 | 59,048 | 29,579 | – | 96,077 |
| | D. Yates | 35,431 | 30,468 | 15,703 | – | 50,196 |

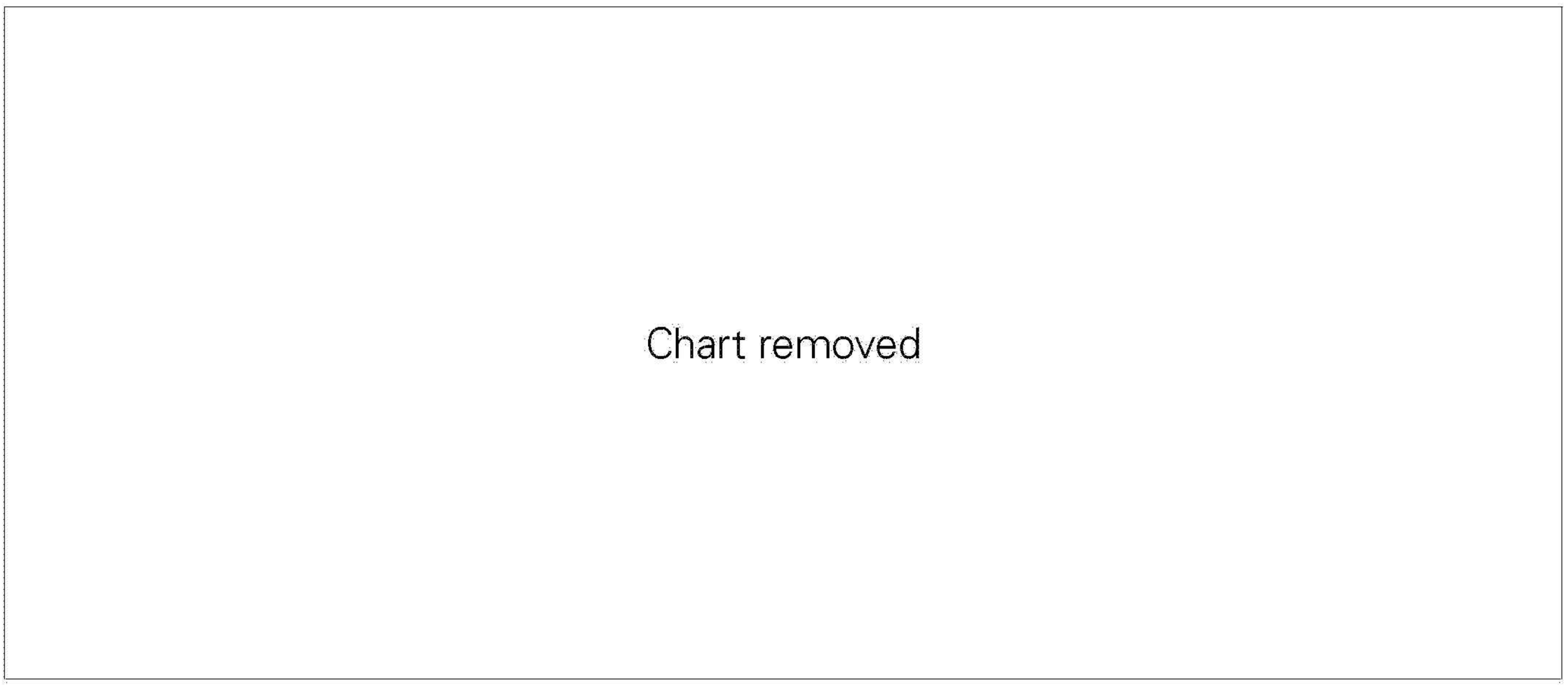
1 The BIP awards granted on 23 March 2020 vested at 1.4% of the maximum opportunity in March 2023.

2 The face value of granted deferred bonus shares is £410,915 for S.C. Harris and £212,027 for D. Yates. Market price at grant date is three day volume weighted average share price following the announcement of results for 2021 (14, 15 and 16 March 2022). Shares granted under deferred bonus plan are conditional only on continued employment.

## 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.




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

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Single figure of remuneration (£000) | 3,089 | 1,803 | 771 | 875 | 2,280 | 2,728 | 1,862 | 783 | 1,969 | 1,607 |
| Annual bonus (% of max) | 46% | 73% | 20% | 19% | 98% | 68% | 50% | 0% | 96% | 61% |
| Long-term incentive (% of max) | 99% | 44% | 0% | 0% | 48% | 89% | 84% | 0% | 0% | 1% |

## 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.

| | 2019 to 2020 | | | 2020 to 2021 | | | 2021 to 2022 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary/ fees | Benefits[5] | Annual bonus[6] | Salary/ fees | Benefits[5] | Annual bonus[6] | Salary/ fees | Benefits[5] | Annual bonus |
| **Executive Director** | | | | | | | | | |
| S.C. Harris | 7.0% | 2.8% | (100%) | 2% | 0.1% | 100% | 4.0% | 1.6% | (35%) |
| D. Yates | 2.3% | 0.8% | (100%) | 2% | (0.5%)[7] | 100% | 1.2% | 0.0%[7] | (38%) |
| **Non-Executive Directors** | | | | | | | | | |
| D. Dayan[1] | – | – | – | – | – | – | n/a | n/a | – |
| P. Larmon | 3.0% | (83.2%) | – | 2% | 1,934.9% | – | 3.0% | (100%) | – |
| E. Lindqvist | 3.0% | (93.3%) | – | 2% | 3,984.5% | – | 6.8% | (100%) | – |
| I.B. Duncan | 3.0% | (61.5%) | – | 2% | 23.4% | – | (4.4%) | (100%) | – |
| L. Chahbazi | 3.0% | (70.6%) | – | 2% | 19.0% | – | 3.0% | (100%) | – |
| K. Boyd[2] | n/a | n/a | – | 2% | (8.3%) | – | 17.3% | (100%) | – |
| C. Gordon[3] | – | – | – | – | – | – | n/a | n/a | – |
| Average employee[4] | 4.1% | 2.4% | (100%) | 2.9% | 10.0% | 100% | 5.7% | 9.8% | (9.2%) |

1 D. Dayan was appointed as Chair to the Board on 1 January 2022.

2 K. Boyd was appointed to the Board on 1 September 2020.

3 C. Gordon was appointed to the Board on 1 June 2022.

4 The annual percentage change of the average remuneration of the listed parent entity employees (excluding Directors), calculated on a full-time equivalent basis.

5 Percentage change in Benefits is calculated on unrounded figures. Non-Executive Directors received benefits in 2020 of less than £500. Hence not showing 100% reductions from 2019. 2021 benefits remained below £500 for four of the Non-Executive Directors.

6 No bonuses were paid to Executive Directors or the Company's employees in respect of 2020.

7 Benefits received in Swiss francs, negative or minimal change in the benefits due to the fluctuation of pound against the Swiss franc.

# Board report on remuneration continued

## 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 |
|---|---|---|---|---|
| 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 |

Option A methodology was selected on the basis that it is a robust approach and is preferred by shareholders and proxy voting agencies. The calculations for the representative employees were performed as at the final day of the relevant financial year.

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, and may fluctuate year to year.

2022 pay ratios have decreased from 2021 due to a decrease in the Group Chief Executive's total remuneration. Considering the BIP remuneration equated to 1% of the total 2022 remuneration, while no BIP was earned in 2021. The decline in 2022 is explained by the lower bonus outcome achievement of 61% of maximum opportunity compared to 96% of maximum opportunity in 2021. No bonus or BIP were earned in 2020.

In 2021 the Group Chief Executive's bonus remuneration equated to 60% of total remuneration, which is, in comparison, the same proportion of what the Group Chief Executive's bonus and BIP 2019 remuneration was on 2019 total remuneration. In 2022 the proportion of the Group Chief Executive's bonus and BIP was 48% of total remuneration. The median pay ratio trend shows a slight decrease from 2021 which is mainly attributable to the decline in the Chief Executive's bonus portion of total remuneration in 2022 compared to 2021.

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[2,3] (£) | Median[2,3] (£) | 75th percentile[2,3] (£) |
|---|---|---|---|---|
| **2022** | | | | |
| Total pay and benefits | 1,605,592[1] | 30,750 | 39,361 | 56,940 |
| Salary component | 633,567 | 29,601 | 37,152 | 51,200 |
| **2021** | | | | |
| Total pay and benefits | 1,969,680[1] | 28,704 | 37,716 | 55,442 |
| Salary component | 609,199 | 26,889 | 35,635 | 48,283 |
| **2020** | | | | |
| Total pay and benefits | 783,454[1] | 27,728 | 36,895 | 51,090 |
| Salary component | 597,254 | 26,150 | 34,859 | 47,373 |
| **2019** | | | | |
| Total pay and benefits | 1,861,501[1] | 26,512 | 33,685 | 46,206 |
| Salary component | 558,181 | 25,248 | 32,166 | 42,643 |

1 The Group Chief Executive remuneration is the total single figure remuneration for the relevant financial year.

2 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.

3 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 2021 and 2022.

| | 2022 (£m) | 2021 (£m) | % change |
|---|---|---|---|
| Staff and employee costs | 276.5 | 252.5 | 9.5% |
| Distribution to shareholders | 38.5 | 49.0 | (21.4%) |

## Committee membership

During 2022 the Committee was chaired by E. Lindqvist. The Committee also comprised I.B. Duncan, P. Larmon, L. Chahbazi, K. Boyd and C. Gordon.

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 2022 the Committee met 12 times to consider, amongst other matters:

| Theme | Agenda items |
|---|---|
| **Best practice** | – Consideration of feedback from shareholders and proxy agencies following the 2022 AGM<br>– Update on market practice and corporate governance |
| **Executive Directors' and senior executives' remuneration** | – Base salary increases<br>– Granting annual bonus and BIP awards, including the setting of targets<br>– Assessment of annual bonus and BIP outcomes |
| **Reporting** | – Consideration and approval of the Directors' Remuneration Report |

## How the Committee addressed the factors in Provision 40 of the UK Corporate Governance Code when determining the Policy

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 2018 UK Corporate Governance Code.

| Principle | How the Committee has addressed the principle |
|---|---|
| **Clarity and simplicity** | The Committee ensures that remuneration arrangements are transparent, comprising a simple incentive structure that is commonplace in the market and best practice remuneration provisions. |
| **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.<br><br>The Committee has recourse to recover incentive payments in certain circumstances. |
| **Predictability** | The 'illustration of application of remuneration policy' chart on page 71 indicates the potential values that may be earned through the remuneration arrangements. |
| **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.<br><br>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:<br>– **Honesty and Transparency:** The incentive arrangements are simple, transparent and in line with market practice, facilitating understanding by all stakeholders.<br>– **Respect and Responsibility:** The Committee has recourse to recover incentive payments in certain circumstances.<br>– **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. |

# Board report on remuneration continued

## Advisers to the Committee

The Committee appointed Deloitte LLP as Committee advisers as of 1 January 2020, following a competitive tender process. Deloitte LLP 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 LLP 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 LLP for its services to the Committee during the year, based on time and expenses, amounted to £90,900 excl VAT. Deloitte LLP 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 in particular consulted with the Group Chief Executive and received recommendations from him in respect of his direct reports.

## Statement of shareholder voting

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

| | Annual Report on Remuneration (% votes) | Directors' Remuneration Policy (% votes) |
|---|---|---|
| Votes cast | 89% | 89% |
| For | 98% | 77% |
| Against | 2% | 23% |
| Number of abstentions | 11,663,385 | 11,802,612 |

E. Lindqvist
Chair of the Remuneration Committee
17 March 2023

# 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 2022 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 Group consolidated balance sheet and the Company balance sheet as at 31 December 2022; the Group consolidated income statement and the Group consolidated statement of comprehensive income, the Group consolidated cash flow statement, and the Group 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. During 2022, the Group continued its recovery from the COVID-19 pandemic, resulting in an increased level of profitability for the financial year.

### 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 component teams to perform full scope audit procedures over additional components to ensure we achieved an appropriate level of audit coverage.

### Key audit matters

- Impairment assessment of goodwill (Group)
- Uncertain tax positions (Group)
- Valuation of defined benefit pension schemes (Group and Company)

### Materiality

- Overall Group materiality: £6,000,000 (2021: £5,700,000) based on professional judgement considering a number of potential benchmarks (specifically revenue and certain profit based benchmarks, both for the current year and over a number of years), given that using 5% of current year profit before tax would have resulted in a lower level of materiality in 2022 than in 2021 despite the fact that the Group's profit before tax has increased year-on-year.
- Overall Company materiality: £4,700,000 (2021: £5,100,000) based on approximately 1% of total assets.
- Performance materiality: £4,500,000 (2021: £4,275,000) (Group) and £3,525,000 (2021: £3,825,000) (Company).

## 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 |
|---|---|
| ***Impairment assessment of goodwill (Group)*** | |
| The group has goodwill of £227.8 million as at 31 December 2022 (2021: £213.9 million). Refer to note 9 of the consolidated financial statements and the Audit Committee's views set out on page 65.<br><br>For the 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 from 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.<br><br>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 CGU and the material goodwill balances held in those CGUs. | We obtained the Group's impairment assessment and tested the integrity of the calculation. We corroborated the 2023 forecast to the Board approved budget, and assessed the assumptions made by management in the budgeting process. We also understood management's process for forecasting longer term cash flows, in particular focusing on the assumptions used through to 2027 and the expected recovery in the Group's revenues and operating margin performance.<br><br>We agreed the underlying carrying values of the CGUs to audited financial information.<br><br>We challenged management's key assumptions for revenue, profit and cash flow budgets by comparing them with third party forecast market data, where available, and considered the allocation of central costs to CGUs. We also performed look back testing to understand how accurate management had been in its forecasting historically, taking into account the unforeseen impact of COVID-19 and the impact of the Russian invasion of Ukraine on global supply chains.<br><br>Our valuations experts compared 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.<br><br>We also considered management's application of a mid-term growth rate to years six to ten in its impairment assessment, and performed sensitivity 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.<br><br>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.<br><br>Based on the procedures performed, we noted no material issues from our work. |

# Independent auditors' report continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***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 notes 6 and 19 of the consolidated financial statements, and the Audit Committee's views set out on page 65.<br><br>In particular, the interpretation of complex tax regulations and the unknown future outcome of any 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 £28.1 million (2021: £24.0 million), which are treated as a significant audit risk and for this reason, and given the resulting effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team, we considered uncertain tax positions to be 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.<br><br>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.<br><br>In assessing the adequacy of the tax provisions, we considered factors such as possible penalties and interest that could be imposed by the local tax authorities. We also determined whether the tax provisions were recognised and measured in accordance with the relevant accounting standards.<br><br>We considered the appropriateness of the related disclosures in notes 6 and 19 to the consolidated financial statements.<br><br>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 defined benefit pension schemes (Group and Company)*** | |
| The Group operates a number of defined benefit pension schemes across a number of territories. Accounting for these schemes can be complex, and necessitates a higher level of audit effort. See the Group's accounting policies, note 27 of the consolidated financial statements and the Audit Committee's views set out on page 65.<br><br>The Group's net retirement benefit obligation is £10.9 million (2021: £13.9 million). This net position also includes the UK scheme, which had an accounting surplus of £3.0 million as at 31 December 2022, which was unrecognised, consistent with prior years.<br><br>The assets of the Group's schemes total £72.7 million. Auditing the valuation of assets can be complex given the schemes invest in Pooled Investment Vehicles (PIVs), which may not have coterminous year ends with the Group's financial statements, or hold complex underlying assets.<br><br>The obligations of the Group's schemes total £80.6 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.<br><br>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. On this basis we identified the risk as elevated for the audit. Since this audit area 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, the following procedures were performed.<br><br>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.<br><br>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. For any assumptions where updates had not been made as at 31 December 2022 compared with prior years, we performed independent analysis to satisfy ourselves that any such updates would not materially change the overall obligation.<br><br>Independent investment manager confirmations were obtained for all material PIVs and bank letters obtained for all scheme bank accounts. The total asset value was also agreed to the Group's asset listing.<br><br>An assessment was performed on each PIV to determine whether it is inherently simple or more complex in nature. More complex funds were subject to additional procedures and additional evidence was obtained to corroborate the valuation. This included a review of transactions around the year end (if any), where the fund valuation date and the financial year end were not coterminous, to establish the completeness and accuracy of the valuation and/or obtaining and reviewing the investment manager's latest internal controls report to assess any issues with the control environment or exceptions noted with controls relating to the valuation of assets (and obtaining bridging letters for the gap between the report and the year end). Prior year PIV audited financial statements were also obtained on a sample basis and reviewed in comparison with unaudited statements and the year end valuation provided.<br><br>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.<br><br>Certain of the above procedures were also performed by component teams in their related audit work on overseas schemes, where relevant.<br><br>We also considered the appropriateness of the related disclosures in note 27 of the consolidated financial statements.<br><br>Based on the procedures performed, we noted no material issues from our work. |

# Independent auditors' report 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 (2021: one) as financially significant in 2022 (as defined within ISAs (UK)). We obtained full scope audit reporting from a further twelve components (2021: twelve), where we concluded that the component engagement leader is a Key Audit Partner, and an additional seven (2021: nine) 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 75% of the Group's revenue (2021: 80%) and 73% of consolidated absolute profit before tax (2021: 78%).

Specified procedures over specific financial statement line items were performed at one further component (2021: 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 all 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 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*** | £6,000,000 (2021: £5,700,000). | £4,700,000 (2021: £5,100,000). |
| ***How we determined it*** | Professional judgement considering a number of potential benchmarks (specifically revenue and certain profit based benchmarks, both for the current year and over a number of years), given that using 5% of current year profit before tax would have resulted in a lower level of materiality in 2022 than in 2021 despite the fact that the Group's profit before tax has increased year-on-year. | Approximately 1% of total assets. |
| ***Rationale for benchmark applied*** | As noted above, 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 (2021: 7%). | 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 £3,200,000.

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 75% (2021: 75%) of overall materiality, amounting to £4,500,000 (2021: £4,275,000) for the Group financial statements and £3,525,000 (2021: £3,825,000) 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 £300,000 (Group audit) (2021: £285,000) and £235,000 (Company audit) (2021: £255,000) 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 2023 used in the base case scenario to the Board approved budget and testing the 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 severe but plausible downside scenario adopted by management, including considering the relevant downside risks that the Group may face over the next twelve months. This included, but was not limited to, the impact on the Group of energy price rises and inflationary pressures, as well as the risk of declines in demand for the Group's services.

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 2022 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 Board report of remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

# Independent auditors' report 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 uncertain tax positions and the impairment assessment 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 Board report of 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 four years, covering the years ended 31 December 2019 to 31 December 2022.

## 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
17 March 2023

# Consolidated income statement

For the year ended 31 December 2022

| | Note | **2022 £m** | 2021[1] £m |
|---|---|---|---|
| **Revenue** | 1 | **743.6** | 615.8 |
| Cost of sales and overheads excluding exceptional items[1] | 2 | **(646.2)** | (535.8) |
| Other operating income excluding exceptional items[1] | 2 | **9.2** | 3.8 |
| Other operating expenses excluding exceptional items[1] | 2 | **(4.5)** | (1.2) |
| Net impairment (losses)/gains on financial assets | | **(0.1)** | 1.2 |
| **Operating profit prior to exceptional items** | 1,2 | **102.0** | 83.8 |
| Exceptional items | 4 | **–** | – |
| **Operating profit** | 2 | **102.0** | 83.8 |
| Finance income | 5 | **0.4** | 0.3 |
| Finance charge | 5 | **(7.1)** | (6.6) |
| **Profit before taxation** | | **95.3** | 77.5 |
| Taxation charge | 6 | **(21.0)** | (17.5) |
| **Profit for the year** | | **74.3** | 60.0 |
| Attributable to: | | | |
| Equity holders of the Parent | | **73.7** | 59.5 |
| Non-controlling interests | | **0.6** | 0.5 |
| | | **74.3** | 60.0 |
| **Earnings per share** | 8 | | |
| | | **Pence** | Pence |
| Basic | | **38.6** | 31.2 |
| Diluted | | **38.5** | 31.2 |

1 The consolidated income statement has been represented to present the gross balances for other operating income and other operating expenses as separate line items. These balances were not material in the prior year and were presented within cost of sales and overheads excluding exceptional items.

All activities have arisen from continuing operations. Total cost of sales and overheads, other operating income and other operating expenses including exceptional items are £641.5m (2021: £533.2m).

# Consolidated statement of comprehensive income

For the year ended 31 December 2022

| | Note | **2022 £m** | 2021 £m |
|---|---|---|---|
| **Profit for the year** | | **74.3** | 60.0 |
| **Items that will not be reclassified to profit or loss:** | | | |
| Actuarial gains on defined benefit pension schemes | 27 | **5.8** | 1.7 |
| Tax on items that will not be reclassified | 19 | **(0.2)** | 0.1 |
| **Total items that will not be reclassified to profit or loss** | | **5.6** | 1.8 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange gains/(losses) on translation of overseas operations | | **57.2** | (14.8) |
| Movements on hedges of net investments | 18 | **(3.1)** | 0.5 |
| Movements on cash flow hedges | | **(0.3)** | 0.5 |
| **Total items that may be reclassified subsequently to profit or loss** | | **53.8** | (13.8) |
| **Other comprehensive income/(expense) for the year** | | **59.4** | (12.0) |
| **Total comprehensive income for the year** | | **133.7** | 48.0 |
| Attributable to: | | | |
| Equity holders of the parent | | **133.3** | 48.2 |
| Non-controlling interests | | **0.4** | (0.2) |
| | | **133.7** | 48.0 |

# Consolidated balance sheet

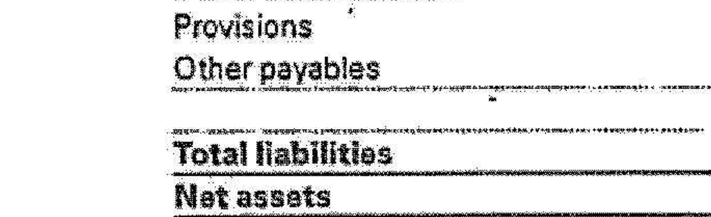
## At 31 December 2022

| | Note | 2022 £m | 2021 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 9 | **227.8** | 213.9 |
| Other intangible assets | 10 | **116.9** | 108.1 |
| Property, plant and equipment | 11 | **516.3** | 489.3 |
| Right-of-use assets | 12 | **59.6** | 57.6 |
| Deferred tax assets | 19 | **1.5** | 2.2 |
| Trade and other receivables | 14 | **1.5** | 1.6 |
| | | **923.6** | 872.7 |
| **Current assets** | | | |
| Inventories | 13 | **27.8** | 19.3 |
| Current tax assets | | **24.4** | 20.6 |
| Trade and other receivables | 14 | **154.4** | 117.0 |
| Cash and bank balances | 15 | **37.2** | 39.3 |
| Derivative financial instruments | 18 | **–** | 0.5 |
| Assets held for sale | 16 | **0.3** | 0.4 |
| | | **244.1** | 197.1 |
| **Total assets** | | **1,167.7** | 1,069.8 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **124.9** | 110.0 |
| Current tax liabilities | | **42.8** | 34.0 |
| Borrowings | 17 | **70.6** | 91.7 |
| Lease liabilities | 12 | **12.3** | 12.9 |
| Derivative financial instruments | 18 | **0.3** | – |
| Provisions | 21 | **10.2** | 14.4 |
| | | **261.1** | 263.0 |
| **Net current liabilities** | | **(17.0)** | (65.9) |
| **Non-current liabilities** | | | |
| Lease liabilities | 12 | **53.7** | 51.6 |
| Retirement benefit obligations | 27 | **10.9** | 13.9 |
| Deferred tax liabilities | 19 | **51.0** | 47.0 |
| Provisions | 21 | **7.9** | 7.4 |
| Other payables | 20 | **1.1** | 1.5 |
| | | **124.6** | 121.4 |
| **Total liabilities** | | **385.7** | 384.4 |
| **Net assets** | | **782.0** | 685.4 |
| **Equity** | | | |
| Share capital | 22 | **33.1** | 33.1 |
| Share premium account | | **177.1** | 177.1 |
| Own shares | | **(5.2)** | (6.2) |
| Other reserves[1] | | **134.9** | 137.5 |
| Translation reserves[1] | | **81.2** | 23.8 |
| Retained earnings | | **359.8** | 319.4 |
| **Equity attributable to equity holders of the parent** | | **780.9** | 684.7 |
| Non-controlling interests | | **1.1** | 0.7 |
| **Total equity** | | **782.0** | 685.4 |

1 A reclassification of £1.0m has been made as at 31 December 2021 from translation reserves to other reserves to ensure consistency with the Statement of Changes in Equity

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 17 March 2023. They were signed on its behalf by:

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



# Consolidated cash flow statement

For the year ended 31 December 2022

| | Note | 2022 £m | 2021 £m |
|---|---|---|---|
| **Net cash from operating activities** | 24 | **142.9** | 144.3 |
| Investing activities | | | |
| Purchases of property, plant and equipment | | **(57.2)** | (45.1) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **4.7** | 11.7 |
| Purchases of other intangible assets | | **(9.8)** | (6.9) |
| Proceeds from disposal of investment in an associate | | **–** | 1.5 |
| Acquisition of businesses, net of cash acquired | 23 | **–** | (66.0) |
| Interest received | | **0.4** | 0.3 |
| **Net cash used in investing activities** | | **(61.9)** | (104.5) |
| **Financing activities** | | | |
| Interest paid | | **(6.2)** | (5.5) |
| Dividends paid | 7 | **(38.5)** | (49.0) |
| Principal elements of lease payments | | **(13.8)** | (14.4) |
| Drawdown of bank loans | | **50.7** | 155.5 |
| Repayments of bank loans | | **(75.0)** | (116.9) |
| **Net cash used in financing activities** | | **(82.8)** | (30.3) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1.8)** | 9.5 |
| **Cash and cash equivalents at beginning of year** | | **37.9** | 29.2 |
| Effect of foreign exchange rate changes | | **0.1** | (0.8) |
| **Cash and cash equivalents at end of year** | 24 | **36.2** | 37.9 |

# Consolidated statement of changes in equity

For the year ended 31 December 2022

| | 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 2021 | 33.1 | 177.1 | (6.9) | 132.6 | 37.9 | 306.7 | 680.5 | 0.9 | 681.4 |
| Profit for the year | – | – | – | – | – | 59.5 | 59.5 | 0.5 | 60.0 |
| Exchange differences on translation of overseas operations | – | – | – | – | (14.1) | – | (14.1) | (0.7) | (14.8) |
| Movements on hedges of net investments | – | – | – | 0.5 | – | – | 0.5 | – | 0.5 |
| Movements on cash flow hedges | – | – | – | 0.5 | – | – | 0.5 | – | 0.5 |
| Actuarial gains on defined benefit pension schemes net of deferred tax | – | – | – | – | – | 1.8 | 1.8 | – | 1.8 |
| Total comprehensive income for the year | – | – | – | 1.0 | (14.1) | 61.3 | 48.2 | (0.2) | 48.0 |
| Acquired in the year/settlement of share options | – | – | 0.7 | (0.8) | – | 0.1 | – | – | – |
| Share-based payments | – | – | – | 4.7 | – | – | 4.7 | – | 4.7 |
| Deferred tax on share-based payment transactions | – | – | – | – | – | 0.3 | 0.3 | – | 0.3 |
| Dividends | – | – | – | – | – | (49.0) | (49.0) | – | (49.0) |
| **31 December 2021** | **33.1** | **177.1** | **(6.2)** | **137.5** | **23.8** | **319.4** | **684.7** | **0.7** | **685.4** |
| 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 options | – | – | **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** |

Included in other reserves is a capital redemption reserve of £129.8m (2021: £129.8m) and a share-based payments reserve of £6.7m (2021: £6.0m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2022, 639,125 (2021: 775,962) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 25).

Certain subsidiaries in the UK have taken an exemption to be audited. Refer to page 143 for further information.

# Group accounting policies

Year ended 31 December 2022

## 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 particularly 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, the ongoing COVID-19 impacts 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 revenues, profits and cash flows in a downside scenario.

Management's base case scenario is built upon the budgeting and forecasting processes for 2023 and the period up to June 2024. This model shows an improvement in performance in both revenue and profits compared to 2022, albeit with operating profit remaining below 2019 levels. The Group's record of cash conversion was used to estimate the cash generation and level of net debt over that period. The severe but plausible downside scenario assumes a significant decline in revenues of around 18% below the base case modelled through to the end of June 2024.

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 2023 revenues would need to decline by over 30% compared to 2022 levels and with no growth in 2024 before the Group's loan covenants were breached at the June 2024 test date. In this scenario, minimum liquidity was over £80m throughout the entire period. This scenario did not include the benefit of any mitigating actions management would undertake, including among other actions, the restructuring of the cost base, a reduction in capital expenditure and a reduction of dividends.

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 2022 totalled £255.4m while uncommitted facilities totalled £46.6m. At 31 December 2022, the Group's Revolving Credit Facility had drawings of £69.6m (2021: £90.3m) and the Group's net debt was £33.4m (2021: £51.9m). The liquidity headroom was £222.0m at 31 December 2022 (2021: £204.3m), 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 significant 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. Refer to notes 6, 19 and 28.
- 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 27.
- Certain items have been disclosed as exceptional costs where the Directors consider that they meet this definition as outlined in the Group's accounting policy below and in note 4.

### Significant accounting estimates

- Accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The discount rate 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 27.

### 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.
- Climate change is referred to in the Principal Risks and uncertainties and Sustainability sections of the Strategic report. 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 note 9.

### 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 should validly be 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, scrap sales and other items of operating income not generated in the normal course of business.

# Group accounting policies continued

Year ended 31 December 2022

**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 124); 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. The income is presented net against the applicable costs within cost of sales and overheads. Any general economic support is presented within other operating income in the consolidated income statement.

**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 grants and after the post-tax share of results of associates and any gains or losses on disposal of investments in associates, but before finance income and finance costs.

**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.

**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 costs 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.

# Group accounting policies continued

## Year ended 31 December 2022

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.

**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-to-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.

**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, 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.

**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. Bodycote utilises cross-currency interest rate swaps where possible to manage the cash flow exposures of borrowings denominated in foreign currencies.

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.

# Group accounting policies continued

## Year ended 31 December 2022

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.

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.

**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.

**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**

A number of amended standards became applicable during the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. The amendments that became applicable for annual reporting periods commencing on or after 1 January 2022, and did not have a material impact, were:

- IFRS 3 Reference to the conceptual framework.
- IAS 16 PPE prohibits a company from deducting from the cost of PPE amounts received from selling items produced while the company is preparing the asset for its intended use. Such sales proceeds and related costs are to be recognised in the income statement.
- IAS 37 Onerous contracts – specifies which costs a company includes when assessing an onerous contract.
- IFRS 1, IFRS 9 and IFRS 16 Annual improvements to IFRS standards.
- IFRIC Agenda decision regarding lessor forgiveness of lease payments (IFRS 9 and IFRS 16).

**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. All the below revisions are effective from 1 January 2023. They are not expected to have a material impact on the Group.

– IFRS 17 Insurance contracts;
– Amendments to IAS 12 Deferred tax related to assets and liabilities arising from a single transaction;
– Amendments to IAS 1 Non-current liabilities with covenants; and
– Amendment to IFRS 16 Leases on sale and leaseback.

**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 47.

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 page 98.

# Notes to the consolidated financial statements

Year ended 31 December 2022

## 1. Business and geographical segments

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

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

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

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

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

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

| Group | ADE 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] | **(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** |

1 £1.7m (2021: £4.7m) IFRS 2 share-based payment charge in the year less £0.1m credit (2021: plus a £0.3m charge) for social security charges.

Inter-segment revenues are not material in either year.

The Group does not have any one customer that contributes more than 10% of revenue.

## 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 |
|---|---|---|---|---|
| **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 2022

## 1. Business and geographical segments continued

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

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

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

## 1. Business and geographical segments continued

**Other information**

| 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 | **430.9** | **434.9** | **(83.8)** | **782.0** |

| 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** |

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

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 1. Business and geographical segments continued

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

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

### 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 | |
|---|---|---|---|---|
| | **2022 £m** | 2021 £m | **2022 £m** | 2021 £m |
| USA | **258.2** | 210.9 | **450.6** | 413.4 |
| France | **90.8** | 80.8 | **64.4** | 63.4 |
| Germany | **79.0** | 71.1 | **71.3** | 68.1 |
| UK | **55.6** | 45.2 | **88.1** | 79.9 |
| Sweden | **48.1** | 40.1 | **35.2** | 36.6 |
| Netherlands | **32.8** | 27.8 | **23.1** | 23.1 |
| Others | **179.1** | 139.9 | **187.9** | 184.4 |
| | **743.6** | 615.8 | **920.6** | 868.9 |

## 2. Operating profit

| | **2022 £m** | 2021 £m |
|---|---|---|
| Revenue | **743.6** | 615.8 |
| Cost of sales | **(473.9)** | (379.8) |
| Gross profit | **269.7** | 236.0 |
| Other operating income | **9.2** | 3.8 |
| Distribution costs | **(21.1)** | (17.4) |
| Administration expenses | **(151.2)** | (138.6) |
| Other operating expenses | **(4.5)** | (1.2) |
| Net impairment (losses)/gains on financial assets | **(0.1)** | 1.2 |
| Operating profit prior to exceptional items | **102.0** | 83.8 |
| Exceptional items (see note 4) | **–** | – |
| Operating profit | **102.0** | 83.8 |

## 2. **Operating profit** continued

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

| | **2022 £m** | 2021 £m |
|---|---|---|
| Net foreign exchange loss/(gain) | **0.1** | (0.2) |
| Inventory expensed | **69.2** | 48.4 |
| Depreciation of property, plant and equipment | **60.2** | 58.0 |
| Depreciation on mothballed sites due to restructuring recognised in exceptional items | **–** | 0.6 |
| Depreciation of right-of-use assets | **13.0** | 13.6 |
| Amortisation of other intangible assets | **11.1** | 12.1 |
| Gain on disposal of property, plant and equipment recognised in operating profit | **(1.7)** | – |
| Loss/(profit) on disposal of property, plant and equipment recognised in exceptional items (see note 4) | **0.1** | (4.8) |
| Gain on disposal of right-of-use assets | **(0.1)** | – |
| Employee costs (see note 3) | **276.5** | 252.5 |
| Pension scheme administration expenses | **0.6** | 0.5 |
| Utility costs | **95.6** | 57.2 |
| Government assistance support received[1] | **(2.6)** | (1.5) |
| Acquisition costs | **0.9** | 0.7 |
| Impairment loss/(gain) on trade receivables | **0.1** | (1.2) |
| Impairment (reversal)/charges – recognised in exceptional items (see note 4) | **(0.1)** | 5.5 |
| Impairment of property, plant and equipment and other assets – recognised in operating profit | **4.8** | – |
| Share of profit of associate undertaking up to disposal | **–** | (0.1) |
| Loss on sale of associate | **–** | 0.4 |

1 Government grants consist of support towards utility expenditure of £1.7m (2021: £nil), R&D support of £0.7m (2021: £nil) and £0.2m (2021: £1.5m) in respect of COVID-19 and other support programmes.

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

| | **2022 £m** | 2021 £m |
|---|---|---|
| Fees payable to the auditor for the audit of the annual accounts | **0.9** | 0.8 |
| Fees payable to the auditor and its associates for other services: | | |
| The audit of the Group's subsidiaries | **1.2** | 1.4 |
| **Total audit fees** | **2.1** | 2.2 |
| Audit related assurance services[1] | **0.1** | 0.1 |
| Other non-audit fees[2] | **–** | 0.1 |
| **Total fees payable to the auditor** | **2.2** | 2.4 |

1 This includes £0.1m for the review of the half year report (2021: £0.1m for the review of the half year report).
2 2021 includes £0.1m for a mandatory assurance requirement by the Dutch government concerning COVID-19 assistance (NOW), required as part of the programme conditions.

The audit fees disclosed for 2022 include £0.1m of fees in connection with the 2021 audit. The audit fees disclosed for 2021 include £0.1m of fees in connection with the 2020 audit.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 3. Employees

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

| | **2022 Number** | 2021 Number |
|---|---|---|
| ADE: | | |
| Western Europe | **740** | 698 |
| North America | **868** | 799 |
| Emerging markets | **73** | 62 |
| AGI: | | |
| Western Europe | **1,490** | 1,490 |
| North America | **626** | 641 |
| Emerging markets | **815** | 775 |
| Shared services | **278** | 243 |
| Head office | **43** | 42 |
| | **4,933** | 4,750 |

| | **2022 £m** | 2021 £m |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages and salaries[1] | **235.6** | 214.6 |
| Social security costs | **32.6** | 30.9 |
| Pension costs | **8.3** | 7.1 |
| | **276.5** | 252.5 |

1 For the year ended 31 December 2022 the Group received government and state employee support towards wages and salaries of £nil (2021: £1.1m) which are presented net against staff costs.

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £1.7m (2021: £4.7m). Included in pension costs are £7.8m relating to defined contribution schemes (2021: £6.4m) and a £0.5m charge relating to defined benefit schemes (2021: £0.7m). Pension administrative costs not included above were £0.6m (2021: £0.5m) and interest costs not included above were £0.1m (2021: £0.1m) – see notes 2 and 27.

Disclosure of individual Directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements are shown in the tables in the Board report on remuneration on pages 68 to 82. See also note 26 for information on share-based payments.

For information on retirement benefit schemes see note 27.

## 4. Exceptional items

| | **2022 £m** | 2021 £m |
|---|---|---|
| Severance and redundancy provision release | **(0.8)** | (2.7) |
| Net impairment (reversal)/charges | **(0.1)** | 5.5 |
| Site closure costs | **1.0** | 1.9 |
| Losses/(gains) on sales of property, plant and equipment recognised in exceptional items | **0.1** | (4.8) |
| Environmental provisions (credit)/charge – see note 21 | **(0.2)** | 0.1 |
| **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 were recorded as exceptional items in line with the Group's accounting policy for exceptional items.

At 31 December 2022, management performed a detailed review of the remaining restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligation, resulting in a net overall charge to exceptional items of £nil.

At 31 December 2022, £3.0m (2021: £10.2m) was held as exceptional provisions. Refer to note 21 for more information.

## 5. Net finance charge

| | 2022 £m | 2021 £m |
|---|---|---|
| Interest on bank loans and overdrafts | **2.3** | 1.3 |
| Interest on deferred consideration | **–** | 0.2 |
| Interest on lease liabilities | **1.8** | 1.8 |
| Total interest expense | **4.1** | 3.3 |
| Net interest on the defined benefit pension liability | **0.1** | 0.1 |
| Other finance charges | **2.9** | 3.2 |
| **Total finance charge** | **7.1** | 6.6 |
| Interest received on bank deposits | **0.1** | 0.1 |
| Other interest receivable | **0.3** | 0.2 |
| **Total finance income** | **0.4** | 0.3 |
| **Net finance charge** | **6.7** | 6.3 |

## 6. Taxation charge

| | 2022 £m | 2021 £m |
|---|---|---|
| Current taxation – charge for the year | **21.3** | 18.9 |
| Current taxation – adjustments in respect of previous years | **(0.6)** | (5.9) |
| Deferred tax (see note 19) | **0.3** | 4.5 |
| Total taxation charge | **21.0** | 17.5 |

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 2022 is 24.8% (2021: 24.7%). The effect of changes in statutory tax rates reflects the impact on deferred tax balances of the increase in the future UK tax rate from 19.0% to 25.0% which will take effect from 1 April 2023 as per the Finance Act 2021. Consequently, the deferred tax balances on the consolidated balance sheet relating to the UK have been measured using these revised rates.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these 'Pillar II' rules with effect for years beginning on or after 31 December 2023. The Group is reviewing these draft rules to assess any potential impacts.

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

| | 2022 £m | 2021 £m |
|---|---|---|
| Profit before taxation | **95.3** | 77.5 |
| Tax at the weighted average country tax rate of 24.8% (2021: 24.7%) | **23.6** | 19.1 |
| Tax effect of expenses not deductible in determining taxable profit[1] | **1.7** | 2.3 |
| Impact of recognition or derecognition of deferred tax balances | **(2.0)** | (0.9) |
| Tax effect of other adjustments in respect of previous years: | | |
| Current tax[2] | **(0.6)** | (5.9) |
| Deferred tax[2] | **(3.4)** | 0.1 |
| Effect of financing activities between jurisdictions[3] | **(0.6)** | 1.3 |
| Impact of trade and minimum corporate taxes | **0.5** | 0.6 |
| Effect of changes in statutory tax rates on deferred tax assets and liabilities | **0.9** | 0.2 |
| Other tax risk provision movements[4] | **0.9** | 0.7 |
| Tax expense for the year | **21.0** | 17.5 |

Tax on items taken directly to equity is a charge of £0.5m (2021: credit of £0.3m).

1 Those costs in various jurisdictions that are not deductible in calculating taxable profits.

2 2022 and 2021 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. £9.1m of interest deductions were restricted in the US in 2022 (2021: £5.1m).

4 Includes provisions for local tax risks and non-financing cross-border transactions.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 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. Tax provisions totalling £28.1m were recognised at 31 December 2022 (2021: £24.0m), of which £5.3m (2021: £1.8m) are expected to crystallise within 12 months. The provisions are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. 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 provisions vary in quantum from £0.4m to £8.9m each.

## 7. Dividends

| | **2022 £m** | 2021 £m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Interim dividend for the year ended 31 December 2020 of 6.0p per share | – | 11.4 |
| Final dividend for the year ended 31 December 2020 of 13.4p per share | – | 25.7 |
| Interim dividend for the year ended 31 December 2021 of 6.2p per share | – | 11.9 |
| 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** | – |
| | **38.5** | 49.0 |
| Proposed final dividend for the year ended 31 December 2022 of 14.9p per share | **28.4** | – |

The Board approved the payment of an interim dividend for 2021 of 6.2p on 27 July 2021 to those shareholders on the register of Bodycote plc on 8 October 2021 and a final ordinary dividend for 2021 of 13.8p to shareholders on the register of Bodycote plc on 22 April 2022. The 2021 interim dividend was paid on 5 November 2021 and the final ordinary dividend on 1 June 2022.

The Board approved the payment of an interim dividend for 2022 of 6.4p on 29 July 2022 to those shareholders on the register of Bodycote plc on 7 October 2022 and has proposed a final ordinary dividend of 14.9p per share to be paid on 2 June 2023 to shareholders on the register at close of business at 21 April 2023 subject to approval by shareholders at the Annual General Meeting. The 2022 interim dividend was paid on 4 November 2022.

As the proposed final dividend is subject to shareholder approval in 2023, 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.

## 8. Earnings per share

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

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent | **73.7** | 59.5 |
| | **Number** | Number |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **190,779,615** | 190,651,774 |
| Effect of dilutive potential ordinary shares: | | |
| Shares subject to performance conditions[1] | **384,848** | 79,678 |
| Shares subject to vesting conditions | **191,502** | 192,117 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **191,355,965** | 190,923,569 |
| | **Pence** | Pence |
| **Earnings per share:** | | |
| Basic | **38.6** | 31.2 |
| Diluted[1] | **38.5** | 31.2 |

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Headline earnings** | | |
| Net profit attributable to equity holders of the parent | **73.7** | 59.5 |
| Add back: | | |
| Amortisation of acquired intangible assets (net of tax) | **7.0** | 7.8 |
| Acquisition costs (net of tax) | **0.7** | 1.0 |
| **Headline earnings** | **81.4** | 68.3 |
| | **Pence** | Pence |
| **Headline earnings per share:** | | |
| Basic | **42.7** | 35.8 |
| Diluted[1] | **42.5** | 35.8 |

1 As at 31 December 2022, in accordance with IAS 33, the related performance conditions for most open plans have not been met resulting in 0.2p dilution of earnings per share (2021: nil).

## 9. Goodwill

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Cost** | | |
| At 1 January | **274.5** | 276.3 |
| Exchange differences | **14.1** | (1.8) |
| Recognised on acquisition of businesses | **0.3** | – |
| At 31 December | **288.9** | 274.5 |
| **Accumulated impairment** | | |
| At 1 January | **60.6** | 60.8 |
| Exchange differences | **0.5** | (0.2) |
| At 31 December | **61.1** | 60.6 |
| **Carrying amount** | **227.8** | 213.9 |

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 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:

| | **2022 £m** | 2021 £m |
|---|---|---|
| ADE: | | |
| Western Europe | **27.2** | 26.8 |
| North America | **100.9** | 93.2 |
| AGI: | | |
| Western Europe | **28.2** | 27.6 |
| North America | **59.4** | 54.7 |
| Emerging Markets | **12.1** | 11.6 |
| | **227.8** | 213.9 |

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 FY23 budget, and five-year financial plan, both of which have been approved by the Board. They have then been extrapolated for a further five years (until 2032) using a medium-term growth rate, before applying a long-term growth rate into perpetuity from the terminal year.

The key assumptions applied in determining the value-in-use of each CGU were as follows:

- **Revenue:** Sales for 2023–2027 were projected based on management's expectations of the growth of the underlying market sectors served by each CGU. These were benchmarked against external sector projections to ensure these expectations were supportable.
- **Operational gearing:** Operational gearing represents the correlation between movements in revenue and operating profits. The gearing levels assumed reflect management's expectations of the performance of the business, 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. In the terminal year, maintenance capital expenditure is assumed to be 100% of depreciation. Expansionary capital expenditure, and the associated revenues and cash flows, are only included to the extent that they have been approved as at the balance sheet date and work on the project is already underway.
- **Medium-term growth rates:** The cash flows for each CGU have been extrapolated between 2027 (the final year of the financial plan) and 2032 reflecting market-based nominal GDP growth rates forecasts that range from 4% for the Western Europe and North American CGUs, to 6% for the Emerging Markets CGU. A medium-term growth rate has been used as management believe that the current inflationary environment will lead to higher growth in the medium term, before reverting to a long-term growth rate.
- **Long-term growth rate:** For the Group's value-in-use calculations, a long-term growth rate into perpetuity was applied. These growth rates were based on the long-term average GDP growth projections of the geographies relevant to each CGU, and are in the range of 2.0% (2021: 2.1%) to 2.3% (2021: 2.4%).
- **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 8.6% (2021: 6.4%) and 9.9% (2021: 9.2%). This increase in discount rates compared with last year mainly reflects the increased risk-free rates derived from generally higher government bond yields during the last year, which, in turn, reflect an expectation of a generally higher inflationary environment in many of our geographies over the medium term. 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. These pre-tax discount rates range from 10.5% (2021: 7.5%) to 12.0% (2021: 11.6%).

The majority of goodwill is allocated to two of the CGUs, being North America ADE and North America 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 2022 £m** | **Long-term growth rate 2022 %** | **Post-tax discount rate 2022 %** | **Pre-tax discount rate 2022 %** |
|---|---|---|---|---|
| Cash generating units | | | | |
| North America ADE | **100.9** | **2.1** | **9.6** | **11.8** |
| North America AGI | **59.4** | **2.1** | **9.6** | **12.0** |

## 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 production costs, and future maintenance capital expenditure, and therefore the Group has conducted sensitivity analysis on the key assumptions applied to the value-in-use calculations for the CGUs. This uncertainty is especially relevant in light of events currently impacting global economies including, but not confined to, inflationary and recessionary pressures facing many countries, volatile energy prices, and the continued COVID-19 pandemic impact across many economies. These uncertainties have been reflected in the sensitivity analyses performed of reasonably possible changes in the underlying assumptions on future cash flows for the CGUs. The following sensitivities were applied:

– zero revenue growth in FY23 for the AGI CGUs, and 5% for the ADE CGUs, reflecting the risk of recession in key geographies in which the Group operates, together with a reduction in the annual sales growth assumed in the base case of 35% in 2024 reducing to 30% by 2027;
– a 25% reduction in both the medium- and long-term growth rates applied;
– a 5% reduction in operational gearing; and
– a 1% increase in the post-tax discount rates.

None of these scenarios resulted in an impairment. In determining the sensitivities to apply, consideration was given to the impact that climate change may have on the Group's businesses which is considered to present both opportunities and risks to the organisation. Whilst specific scenarios were not modelled, the impact of the above sensitivities was deemed sufficiently significant to cover a range of potential risks, some of which are difficult to estimate with current known information. The Group's assessment of the impact of climate change is set out on pages 42 to 44 of the Annual Report.

While the reasonably possible changes summarised above do not indicate an impairment, it is difficult in the current environment to predict how and when the world's economies will recover from the macro-economic impacts of COVID-19 and the war in Ukraine. In the event that profits and cash flows do not ultimately return to historical levels when anticipated, or the Group is unable to maintain or realise expected operating gearing ratios, a risk of impairment may arise in the future, absent further mitigating actions. However 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. The Directors have concluded that no impairment charge is required as at 31 December 2022.

## 10. Other intangible assets

| | Software £m | Customer relationships £m | Non-compete agreements £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 41.5 | 133.2 | 3.8 | 178.5 |
| Exchange differences | (0.3) | – | – | (0.3) |
| Additions | 6.9 | – | – | 6.9 |
| Acquired on acquisition of businesses | – | 5.0 | – | 5.0 |
| Eliminated on disposals | (1.5) | – | – | (1.5) |
| 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 31 December 2022** | **53.6** | **154.5** | **3.8** | **211.9** |
| **Amortisation** | | | | |
| At 1 January 2021 | 25.4 | 42.0 | 3.1 | 70.5 |
| Exchange differences | (0.3) | (0.3) | – | (0.6) |
| Charge for the year | 1.8 | 10.3 | – | 12.1 |
| Eliminated on disposals | (1.5) | – | – | (1.5) |
| 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 31 December 2022** | **24.2** | **67.6** | **3.2** | **95.0** |
| **Carrying amount** | | | | |
| **At 31 December 2022** | **29.4** | **86.9** | **0.6** | **116.9** |
| At 31 December 2021 | 21.2 | 86.2 | 0.7 | 108.1 |

Included in intangible software assets are carrying values related to the Group's existing ERP software module totalling £4.0m (2021: £5.6m) which are currently being amortised over the remaining useful life.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 10. Other intangible assets continued

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 £9.6m (2021: £6.6m), of which £4.7m (2021: £2.4m) relates to internally generated capital costs for the development of this ERP solution. Included in intangible assets are £24.0m (2021: £14.4m) that is not yet available for use and is therefore not yet being amortised.

Contractual commitments related to the ERP software development were £1.9m at 31 December 2022 (2021: £2.1m). 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 2021 | 254.4 | 10.1 | 18.2 | 1,020.0 | 28.6 | 59.2 | 1,390.5 |
| Additions | 0.2 | 0.4 | 0.6 | 3.8 | 0.3 | 41.0 | 46.3 |
| Acquisition of businesses | 1.2 | – | – | 1.1 | – | – | 2.3 |
| Exchange differences | (9.6) | 0.1 | (0.4) | (31.2) | (1.1) | (1.2) | (43.4) |
| Transfer to assets held for sale | (1.7) | – | – | – | – | – | (1.7) |
| Recategorisation | 9.9 | (0.2) | 1.6 | 31.7 | 0.2 | (43.2) | – |
| Eliminated on disposals | (6.0) | (0.4) | (0.2) | (36.0) | (1.2) | (0.8) | (44.6) |
| 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 31 December 2022** | **272.5** | **9.4** | **21.4** | **1,087.8** | **30.0** | **59.1** | **1,480.2** |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2021 | 123.1 | 5.4 | 8.9 | 707.5 | 22.9 | 0.1 | 867.9 |
| Charge for the year | 6.6 | 1.0 | 1.3 | 48.5 | 1.2 | – | 58.6 |
| Impairment losses incurred | 0.2 | – | 0.3 | 3.7 | – | – | 4.2 |
| Exchange differences | (5.2) | 0.1 | (0.3) | (22.5) | (0.8) | – | (28.7) |
| Transfer to assets held for sale | (1.2) | – | – | – | – | – | (1.2) |
| Recategorisation | 0.3 | (0.1) | – | (0.1) | (0.1) | – | – |
| Eliminated on disposals | (3.9) | (0.4) | (0.1) | (35.1) | (1.2) | – | (40.7) |
| 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 31 December 2022** | **133.3** | **6.9** | **11.4** | **788.2** | **24.0** | **0.1** | **963.9** |
| **Carrying amount** | | | | | | | |
| **At 31 December 2022** | **139.2** | **2.5** | **10.0** | **299.6** | **6.0** | **59.0** | **516.3** |
| At 31 December 2021 | 128.5 | 4.0 | 9.7 | 287.4 | 4.8 | 54.9 | 489.3 |

1 For further information on capital payables and accruals see note 20.

At 31 December 2022 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £9.4m (2021: £5.8m).

## 11. Property, plant and equipment continued

Property, plant and equipment impairments of £4.8m incurred in the year relate to assets that were deemed to no longer be required. A £0.1m asset impairment reversal was booked in the year related to the disposal of assets. Asset impairments incurred in 2021 of £4.2m were booked to exceptional items as they were a consequence of the restructuring programme announced in 2020. All impairments in 2022 and 2021 were written to £nil carrying value. Net asset impairments broken down by business segment are shown in the table below.

| | **2022 £m** | 2021 £m |
|---|---|---|
| ADE: | | |
| Western Europe | **–** | 0.7 |
| North America | **0.1** | 2.3 |
| AGI: | | |
| Western Europe | **–** | 0.8 |
| North America | **4.6** | 0.4 |
| | **4.7** | 4.2 |

As at 31 December property assets with a net book value of £0.3m were classified as held for sale (2021: £0.4m) (see note 16 for details). The Group also disposed of certain assets with proceeds recorded of £3.2m (2021: £11.7m). A gain on sale was recorded in operating profit in the consolidated income statement of £1.7m (2021: nil) and a loss on sale of certain assets related to the 2020 restructuring programme included in exceptional items of £0.1m (2021: £4.8m).

## 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[1] £m** | **Plant and machinery £m** | **Vehicles £m** | **Total £m** |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2021 | 130.0 | 21.1 | 18.4 | 169.5 |
| Additions | 4.1 | 1.4 | 1.8 | 7.3 |
| Eliminated on disposals | (5.2) | (1.3) | (1.7) | (8.2) |
| Exchange differences | (3.6) | (0.6) | (0.7) | (4.9) |
| 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 31 December 2022** | **142.4** | **22.6** | **19.1** | **184.1** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2021 | 72.6 | 15.0 | 12.9 | 100.5 |
| Charge for the year | 8.3 | 2.6 | 2.7 | 13.6 |
| Impairment losses incurred | 2.3 | – | – | 2.3 |
| Eliminated on disposals | (5.0) | (1.0) | (1.5) | (7.5) |
| Exchange differences | (2.0) | (0.4) | (0.4) | (2.8) |
| 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 31 December 2022** | **89.8** | **18.9** | **15.8** | **124.5** |
| **Carrying amount** | | | | |
| **At 31 December 2022** | **52.6** | **3.7** | **3.3** | **59.6** |
| At 31 December 2021 | 49.1 | 4.4 | 4.1 | 57.6 |

1 The carrying amount of fixtures and fittings as at 31 December was £nil (2021: £0.2m).

In the year to 31 December 2022 total lease payments charged directly to the consolidated income statement amounted to £1.1m (2021: £0.5m) for short-term leases and £0.7m (2021: £0.6m) for leases of low value in line with Group policy.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 12. Right-of-use assets continued

### Lease liabilities

| Maturity analysis – contractual undiscounted cash flows | 2022 £m | 2021 £m |
|---|---|---|
| Less than one year | **14.3** | 15.8 |
| One to five years | **33.9** | 32.8 |
| More than five years | **55.7** | 54.2 |
| **Total undiscounted cash flows** | **103.9** | 102.8 |

| | 2022 £m | 2021 £m |
|---|---|---|
| At 1 January | **64.5** | 75.6 |
| Additions | **11.7** | 6.3 |
| Disposals | **(0.7)** | (0.6) |
| Principal and interest repayments | **(13.8)** | (14.4) |
| Exchange differences | **4.3** | (2.4) |
| **At 31 December** | **66.0** | 64.5 |
| Current | **12.3** | 12.9 |
| Non-current | **53.7** | 51.6 |

| Amounts recognised in the consolidated income statement | 2022 £m | 2021 £m |
|---|---|---|
| Depreciation charge | **13.0** | 13.6 |
| Interest on lease liabilities | **1.8** | 1.8 |
| Variable lease payments not included in the measurement of lease liabilities | **–** | 0.1 |
| Expenses relating to short-term leases | **1.1** | 0.5 |
| Expenses relating to leases of low value assets | **0.7** | 0.6 |
| Gain on disposal of right-of-use assets | **(0.1)** | – |
| Right-of-use asset impairment charge | **–** | 2.3 |

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

| | 2022 £m | 2021 £m |
|---|---|---|
| Raw materials | **23.9** | 17.5 |
| Work-in-progress | **4.1** | 2.3 |
| Finished goods and goods for resale | **0.9** | 0.7 |
| Less: obsolescence provision | **(1.1)** | (1.2) |
| | **27.8** | 19.3 |

Inventory expensed in the years ended 31 December 2022 and 2021 is disclosed in note 2.

## 14. Trade and other receivables

| | 2022 £m | 2021 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts receivable for the supply of services | **135.8** | 102.9 |
| Allowance for expected credit loss | **(2.9)** | (2.8) |
| Net trade receivables | **132.9** | 100.1 |
| Other receivables | **11.7** | 8.8 |
| Prepayments | **9.8** | 8.1 |
| | **154.4** | 117.0 |
| **Amounts falling due after more than one year:** | | |
| Trade and other receivables | **1.5** | 1.6 |

The credit period given to customers for the supply of services as at 31 December 2022 is 62.6 days (2021: 63.0 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £2.9m (2021: £2.8m). 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 £32.0m (2021: £21.3m) which are past due but not impaired at the reporting date, reflecting the increase in revenues. 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.

| | 2022 £m | 2021 £m |
|---|---|---|
| Trade receivables within terms | **100.9** | 78.8 |
| Ageing of past due but not impaired receivables: | | |
| 31-60 days | **17.0** | 12.4 |
| 61-90 days | **10.3** | 6.1 |
| 91-120 days | **3.2** | 2.0 |
| Greater than 120 days | **1.5** | 0.8 |
| | **132.9** | 100.1 |

Movement in the allowance for expected credit loss:

| | 2022 £m | 2021 £m |
|---|---|---|
| At 1 January | **2.8** | 4.5 |
| Impairment losses recognised | **1.3** | 0.9 |
| Amounts written off as uncollectable | **(0.2)** | (0.3) |
| Impairment losses reversed | **(1.2)** | (2.1) |
| Exchange differences | **0.2** | (0.2) |
| At 31 December | **2.9** | 2.8 |

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 individually impaired trade receivables with a gross balance of £6.5m (2021: £4.9m). 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.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 14. Trade and other receivables continued

Ageing of impaired trade receivables:

| | 2022 £m | 2021 £m |
|---|---|---|
| Less than 3 months | **0.3** | 0.2 |
| 3-12 months | **2.2** | 1.2 |
| Over 12 months | **4.0** | 3.5 |
| | **6.5** | 4.9 |

## 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:

| | 2022 £m | 2021 £m |
|---|---|---|
| US dollar | **10.6** | 10.5 |
| Euro | **7.3** | 8.7 |
| Sterling | **3.1** | 6.2 |
| Chinese yuan | **10.3** | 7.4 |
| Swedish krona | **1.9** | 2.0 |
| Other | **4.0** | 4.5 |
| Total cash and bank balances[1] | **37.2** | 39.3 |

1 Refer to note 17 for an analysis of overdraft by currency.

## 16. Assets held for sale

Included in assets held for sale are £0.3m (2021: £0.4m) of assets that are actively being marketed for sale. During the year assets of £0.1m previously recorded as held for sale as at 31 December 2021 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:

| | 2022 £m | 2021 £m |
|---|---|---|
| AGI: | | |
| Western Europe | **0.3** | 0.3 |
| North America | **–** | 0.1 |
| | **0.3** | 0.4 |

## 17. Borrowings

| | 2022 £m | 2021 £m |
|---|---|---|
| Revolving Credit Facility | **69.6** | 90.3 |
| Bank overdrafts | **1.0** | 1.4 |
| Total borrowings | **70.6** | 91.7 |
| Weighted average interest rate paid | **4.2%** | 1.7% |
| Analysis of Revolving Credit Facility drawdowns by currency: | | |
| US dollar | **12.0** | 30.3 |
| Euro | **34.6** | – |
| Sterling | **23.0** | 60.0 |
| | **69.6** | 90.3 |
| Analysis of bank overdrafts by currency: | | |
| US dollar | **1.0** | 0.6 |
| Other | **–** | 0.8 |
| | **1.0** | 1.4 |

## 17. **Borrowings** continued

Bank overdrafts are repayable on demand. No overdrafts are secured.

During the year the Group extended its £250.9m Revolving Credit Facility by one year. The facility that commenced on 27 May 2020 will now expire on 27 May 2027.

At 31 December 2022, the Group's Revolving Credit Facility had total drawings of £69.6m (2021: £90.3m). During the year the Group utilised £50.7m (2021: £155.5m) under the committed facility, and £75.1m was repaid during the year (2021: £116.9m). The RCF is a combination of GBP, EUR, and USD borrowings and as such was subject to foreign exchange movements of £3.3m in the year.

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.

**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 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** |

| | Less than 1 year 2021 £m | 1-2 years 2021 £m | 2-5 years 2021 £m | 5+ years 2021 £m | Total 2021 £m |
|---|---|---|---|---|---|
| Non-interest-bearing financial liabilities[1] | 55.3 | 0.3 | – | 0.2 | 55.8 |
| Bank loans and overdrafts | 91.7 | – | – | – | 91.7 |
| Lease liabilities | 15.8 | 11.4 | 21.4 | 54.2 | 102.8 |
| | 162.8 | 11.7 | 21.4 | 54.4 | 250.3 |

1 Excludes payroll related accruals of £31.9m (2021: £31.1m) which are financial instruments held at amortised cost but are paid immediately after year end.

Of the £70.6m (2021: £91.7m) bank loans and overdrafts outflows disclosed above, £69.6m (2021: £90.3m) of bank loans are drawn under the committed facility maturing on 27 May 2027. The overdrafts are 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 a liability of £0.3m (2021: asset of £0.5m).

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 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 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 assets** | Fair value hierarchy | At amortised cost 2021 £m | At fair value through profit or loss 2021 £m | At fair value through OCI 2021 £m | Total 2021 £m |
|---|---|---|---|---|---|
| Trade and other receivables | | 107.2 | – | – | 107.2 |
| Cash and bank balances | | 39.3 | – | – | 39.3 |
| Derivative financial instruments | Level 2 | – | – | 0.5 | 0.5 |
| | | 146.5 | – | 0.5 | 147.0 |

| **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** |

| **Financial liabilities** | Fair value hierarchy | At amortised cost 2021 £m | At fair value through profit or loss 2021 £m | At fair value through OCI 2021 £m | Total 2021 £m |
|---|---|---|---|---|---|
| Borrowings – loans and overdrafts | | 91.7 | – | – | 91.7 |
| Lease liabilities | | 64.5 | – | – | 64.5 |
| Trade and other payables[1] | | 55.3 | – | – | 55.3 |
| Other non-current liabilities | Level 2/3 | 0.5 | – | – | 0.5 |
| | | 212.0 | – | – | 212.0 |

1 Excludes payroll related accruals of £31.9m (2021: £31.1m) 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 -£0.3m (2021: +£0.5m) 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 is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management 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 by the Board, 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.

## 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, an 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, at the current net cash/(debt) levels, requires committed facilities (plus term loans in excess of one year) to exceed net debt by 50% (minimum facilities of £75m).

As at 31 December 2022, the Group had £181.3m (2021: £160.6m) available on the committed Revolving Credit Facility of £250.9m which together with cash and cash equivalents, including overdrafts, of £36.2m (2021: £37.9m), resulted in available funds of £217.5m (2021: £198.5m). 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 2022 the Group's principal committed bank facility of £250.9m had a maturity date of 27 May 2027 (4.4 years to maturity) and had drawings of £69.6m (2021: £90.3m).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2022, the Group had cash and bank balances of £37.2m (2021: £39.3m).

### 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 only with counterparties with a long-term credit rating of A-/A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

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 USA. Measurement of this interest rate risk and its potential impact due to volatility on the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

### 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 2022 would increase or reduce profit before tax by approximately £0.7m (2021: £0.9m). There is no significant impact on equity in the current or previous year.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 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 accounts.

Ninety-three per cent of the Group's revenues are in currencies other than sterling (EUR 34%, USD 36% and SEK 7%, and others at or below 3% individually, total 16%). Cumulatively over the year, sterling rates moved such that the revenue for the year was £21.6m lower than if revenue had been translated at the rates prevailing in 2021.

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 93% 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 2022 revenue by currency, a 10% weakening/strengthening in the 2022 cumulative average rates for all currencies versus sterling would have given rise to a +£76.4m /-£62.5m 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 2022 operating profit mix, a 10% weakening/strengthening in 2022 cumulative average rates for all currencies would have given rise to a +£10.3m/-£8.4m movement in headline operating profit.

### (d) Derivative financial instruments

The Group's derivative financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The losses recognised in the income statement on the contracts which matured in 2022 amounted to £0.1m (2021: £nil). The unrealised gains and losses were not material in either 2022 or 2021.

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 entered into an interest rate swap contract which has been classified as a level 2 instrument with a fair value of -£0.3m (2021: +£0.5m), which is due to terminate on 30 June 2023. At the balance sheet date, the aggregate fair value amount of the interest rate swap contract is £0.3m (2021: £0.5m) consisting of a GBP receivable and EUR payable.

The interest rate swap contract is combined with the GBP Revolving Credit Facility and designated as part of the hedging instrument for the EUR net investment hedge. The hedged item is identified as the carrying amount of the Group's net investment in one foreign operation. There was no material ineffectiveness in relation to interest rate derivative recorded in 2022 and 2021.

### (e) Net investment hedge

The Group continues to be drawn on the Revolving Credit Facility as this was used to partly fund the Ellison acquisition in 2020 and the related deferred consideration payments in 2021. The related loans are denominated in GBP (partly combined with a EUR cross-currency interest rate swap), USD and EUR. Certain EUR and USD amounts are designated as net investment hedges to the Group's subsidiaries with a matching functional currency on a 1:1 ratio. The effects and performance of the net investment hedges at 31 December 2022 are set out as follows:

| **EUR Net investment hedge** | **2022 £m** | **2022 €m** | 2021 £m | 2021 €m |
|---|---|---|---|---|
| Carrying amount of the hedging instruments and denominations[1] | **43.5** | **49.0** | 25.2 | 30.0 |
| Carrying amount of the hedged items (net assets of subsidiaries) and denominations | **43.5** | **49.0** | 25.2 | 30.0 |
| Hedge ratio | **1:1** | **–** | 1:1 | – |
| Change in hedging instruments carrying amount as a result of foreign currency movements from 1 January 2022 | **(2.1)** | **–** | 1.1 | – |
| Change in value of hedged item used to determine hedge effectiveness | **2.1** | **–** | (1.1) | – |

1 The carrying amount comprises £34.9m of the EUR Revolving Credit Facility and £8.6m cross currency interest rate swap-combined with the GBP RCF.

## 18. Financial instruments continued

| USD Net investment hedge | 2022 £m | 2022 $m | 2021 £m | 2021 $m |
|---|---|---|---|---|
| Carrying amount of the hedging instruments and denominations[1] | **12.0** | **14.5** | 30.3 | 41.0 |
| Carrying amount of the hedged items (net assets of subsidiaries) and denominations | **12.0** | **14.5** | 30.3 | 41.0 |
| Hedge ratio | **1:1** | **–** | 1:1 | – |
| Change in hedging instruments carrying amount as a result of foreign currency movements from 1 January 2022 | **(1.0)** | **–** | (0.4) | – |
| Change in value of hedged item used to determine hedge effectiveness | **1.0** | **–** | 0.4 | – |

The foreign exchange loss of £3.1m (2021: £0.7m gain) on translation of borrowings to GBP at the end of the reporting period is 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.

## 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 2021 | 56.1 | (2.6) | (3.6) | (9.6) | 40.3 |
| (Credit)/charge to the consolidated income statement | (2.7) | (1.0) | 0.2 | 7.8 | 4.3 |
| Credit to equity | – | – | (0.1) | (0.2) | (0.3) |
| Acquisition of businesses | – | – | – | 1.3 | 1.3 |
| Transfers | (1.6) | 1.6 | – | – | – |
| Exchange differences | (1.8) | 0.1 | 0.2 | 0.5 | (1.0) |
| Effect of change in tax rate in the income statement | – | 0.1 | 0.1 | – | 0.2 |
| 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 31 December 2022 | **57.5** | **(3.7)** | **(3.0)** | **(1.3)** | **49.5** |

| | 2022 £m | 2021 £m |
|---|---|---|
| Deferred tax liabilities | **51.0** | 47.0 |
| Deferred tax assets | **(1.5)** | (2.2) |
| | **49.5** | 44.8 |

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 £37.6m (2021: £40.4m) available for offset against future profits. A deferred tax asset has been recognised in respect of £15.7m (2021: £6.6m) 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 £21.9m (2021: £33.8m) 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 £52.4m (2021: £55.8m) which are not recognised for deferred tax as future suitable profits against which the losses could be utilised are not probable.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 19. Deferred tax continued

A deferred tax liability of £3.1m (2021: £1.9m) 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

| | 2022 £m | 2021 £m |
|---|---|---|
| **Working capital amounts falling due within one year:** | | |
| Trade payables | **30.8** | 21.7 |
| Other taxes and social security | **20.7** | 20.2 |
| Other payables | **4.9** | 8.2 |
| Trade accruals[1] | **55.8** | 48.8 |
| | **112.2** | 98.9 |
| **Other amounts falling due within one year:** | | |
| Interest payable | **1.7** | 0.8 |
| Capital payables | **5.6** | 6.0 |
| Capital accruals | **5.4** | 4.3 |
| | **12.7** | 11.1 |
| **Total amounts falling due within one year:** | **124.9** | 110.0 |
| Working capital amounts falling due after more than one year: | | |
| Other payables | **1.1** | 1.5 |

1 Accruals include £31.9m (2021: £31.1m) 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 2022 is 35 days (2021: 33 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 2022 | **9.0** | **3.6** | **6.0** | **3.2** | **21.8** |
| Increase in provision | **1.6** | **0.2** | **3.1** | **4.1** | **9.0** |
| Release of provision | **(2.9)** | **(0.4)** | **(0.1)** | **(0.1)** | **(3.5)** |
| Utilisation of provision | **(6.6)** | **(1.3)** | **(0.7)** | **(2.1)** | **(10.7)** |
| Exchange difference | **0.5** | **0.3** | **0.6** | **0.1** | **1.5** |
| **At 31 December 2022** | **1.6** | **2.4** | **8.9** | **5.2** | **18.1** |
| Included in current liabilities | | | | | **10.2** |
| Included in non-current liabilities | | | | | **7.9** |
| | | | | | **18.1** |

Included within the above balances are £1.0m of environmental restructuring provisions, £8.9m of environmental provisions and £5.2m of legal provisions which do not relate to the Group's 2020 exceptional restructuring programme.

## 21. Provisions continued

### Exceptional restructuring

At 31 December 2022, £1.6m (2021: £7.8m) of restructuring provisions and £1.4m (2021: £2.4m) of restructuring environmental provisions remain, relating to restructuring initiatives across North America and Europe announced in 2020. Refer to the 2020 Annual Report for more information.

In the year ended 31 December 2022, £7.6m of the brought forward exceptional restructuring provisions was utilised in order to carry out planned activities relating to employee severance and redundancy (£2.9m), costs associated with closing plants (£3.7m) and the remediation of environmental issues (£1.0m).

As at 31 December 2022, management has performed a detailed review of restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligations and the related timing. As a result of this assessment, the exceptional restructuring provisions were adjusted as follows:

| | Restructuring £m | Restructuring environmental £m | Total £m |
|---|---|---|---|
| Increase in provision | **1.6** | **0.2** | **1.8** |
| Release of provision | **(1.4)** | **(0.4)** | **(1.8)** |
| **Net charge/(release)** | **0.2** | **(0.2)** | **–** |

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

Cash outflows in relation to exceptional restructuring initiatives were £7.4m (2021: £13.0m). The majority of the remaining cash outflows on these activities are expected to occur in 2023 with certain environmental remediation activities expected to occur until 2026.

Of the remaining exceptional restructuring provision of £3.0m at 31 December 2022, £0.2m related to employee severance and redundancy, £1.4m for costs associated with closing plants and £1.4m related to environmental issues.

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 is separated into restructuring environmental and environmental provisions to identify separately those provisions relating to the restructuring programme from those arising in the ordinary course of business. The majority of cash outflows in respect of these liabilities are expected to occur within five years.

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

## 22. Share capital

| | 2022 £m | 2021 £m |
|---|---|---|
| Authorised: 248,947,368 (2021: 248,947,368) ordinary shares of 17 $^{3}/_{11}$p each | **43.0** | 43.0 |
| Issued and fully paid: 191,456,172 (2021: 191,456,172) ordinary shares of 17 $^{3}/_{11}$p each | **33.1** | 33.1 |

## 23. Acquisition of businesses

Acquisition-related costs amounted to £0.9m (2021: £0.7m) which have been included in the consolidated income statement. No acquisitions were completed in the year ended 31 December 2022.

### Acquisitions prior to 2022

On 1 December 2021 the Group acquired 100% of the share capital of a new business in Western Europe, for total consideration of £8.2m. The acquisition was made to strengthen the Group's network and service offering within the Group's Western European business and complement the Group's Specialist Technologies strategy. The transaction was accounted for as a business combination under IFRS 3.

New information obtained during the measurement period has resulted in an adjustment of the fair values of the liabilities acquired as permitted under IFRS 3 during the 12 months following the acquisition. This has resulted in an increase in the fair value of trade and other payables acquired of £0.3m to £1.4m with a resulting increase in goodwill from £nil to £0.3m. No restatement of prior year numbers has been made given the immateriality of the adjustment. Further details of this acquisition and the associated fair values and cash consideration can be found in the 2021 Annual Report.

Deferred consideration of £57.8m was paid in April 2021 as agreed with the seller in relation to the acquisition of Ellison Surface Technologies ('Ellison') in which the Group acquired 100% of the share capital. Details of this acquisition can be found in the 2020 and 2021 annual reports.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 24. Notes to the cash flow statement

| | 2022 £m | 2021 £m |
|---|---|---|
| Profit for the year | **74.3** | 60.0 |
| Adjustments for: | | |
| Finance income | **(0.4)** | (0.3) |
| Finance costs | **7.1** | 6.6 |
| Taxation charge | **21.0** | 17.5 |
| Operating profit | **102.0** | 83.8 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment recognised in operating profit | **60.2** | 58.0 |
| Depreciation on mothballed sites due to restructuring recognised in exceptional items | **–** | 0.6 |
| Depreciation of right-of-use assets | **13.0** | 13.6 |
| Amortisation of other intangible assets | **11.1** | 12.1 |
| Profit on disposal of property, plant and equipment recognised in operating profit | **(1.7)** | – |
| Loss/(profit) on disposal of property, plant and equipment recognised in exceptional items | **0.1** | (4.8) |
| Profit on disposal of right-of-use assets | **(0.1)** | – |
| Share-based payments | **1.7** | 4.7 |
| Income from associate prior to disposal | **–** | (0.1) |
| Loss on disposal of associate | **–** | 0.4 |
| Impairment (reversal)/charges of property, plant and equipment and other assets recognised in exceptional items | **(0.1)** | 5.5 |
| Impairment of property, plant and equipment and other assets recognised in operating profit | **4.8** | – |
| **EBITDA (see APM definition on page 147)** | **191.0** | 173.8 |
| Increase in inventories | **(8.5)** | (2.7) |
| Increase in receivables | **(37.4)** | (1.6) |
| Increase in payables | **12.6** | 1.9 |
| Decrease in provisions | **(3.7)** | (17.6) |
| **Cash generated by operations** | **154.0** | 153.8 |
| Income taxes paid | **(15.4)** | (9.5) |
| Settlement of derivatives | **0.8** | – |
| Refund of post-settlement pension surplus – see note 27 | **1.8** | – |
| Net exchange differences | **1.7** | – |
| **Net cash from operating activities** | **142.9** | 144.3 |

| | 2022 £m | 2021 £m |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | **37.2** | 39.3 |
| Bank overdrafts (included in borrowings) | **(1.0)** | (1.4) |
| | **36.2** | 37.9 |

The cash and cash equivalents disclosed above in the statement of cash flows includes £0.8m held in escrow relating to environmental provisions in the USA and £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.

## 25. 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 2022** | BIP 2021 | **Other Plans 2022** | Other Plans 2021 |
|---|---|---|---|---|
| At 1 January | **4,499,730** | 4,053,180 | **311,335** | 257,132 |
| Granted during the year | **2,086,698** | 1,562,488 | **242,384** | 133,527 |
| Exercised during the year | **(75,460)** | (10,279) | **(61,377)** | (79,324) |
| Expired during the year | **(1,173,184)** | (1,105,659) | **(8,131)** | – |
| At 31 December | **5,337,784** | 4,499,730 | **484,211** | 311,335 |
| Average fair value of share awards granted during the year at date of grant (pence) | **549.5** | 794.2 | **583.8** | 802.1 |
| Fair value of awards granted during the year (£) | **11,465,911** | 12,409,346 | **1,414,922** | 1,070,969 |

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. More information on the BIP can be found in the Board report on remuneration on pages 68 to 82.

Other plans include a restricted share programme and a deferred bonus plan whereby 35% of any bonus earned is deferred into shares. Under both plans, shares issued vest after three years from the grant date and are conditional only on continued employment.

The exercise price of shares exercised was £nil. As at year ended 31 December 2022 11,723 were exercisable, 2,750 relating to BIP plans and 8,973 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 2022** | BIP 2021 | **Other Plans 2022** | Other Plans 2021 |
|---|---|---|---|---|
| Weighted average share price (pence) | **592.7** | 880.0 | **616.6** | 802.5 |
| Weighted average exercise price (pence) | **nil** | nil | **nil** | nil |
| Expected life (years) | **3.0** | 3.0 | **3.0** | 3.0 |
| Expected dividend yields (%) | **2.5** | 3.4 | **0.0-2.5** | – |
| Weighted average remaining contractual life of shares outstanding (years) | **1.0** | 1.1 | **1.7** | 1.7 |
| Average fair value of share awards granted during the year at date of grant (pence) | **549.5** | 794.2 | **583.8** | 802.1 |
| Fair value of awards granted during the year (£) | **11,465,911** | 12,409,346 | **1,414,922** | 1,070,969 |

The Group recognised a total charge to the consolidated income statement of £1.7m (2021: £4.7m) related to equity-settled share-based payment transactions.

## 26. 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 27.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

| | **2022 £m** | 2021 £m |
|---|---|---|
| Short-term employee benefits | **2.5** | 2.8 |
| Share based payments | **0.2** | 1.2 |
| Pensions | **0.2** | 0.2 |
| | **2.9** | 4.2 |

Further information about the remuneration of the individual Directors is provided in the Board report on remuneration on pages 68 to 82.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 27. Retirement benefit schemes

### Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for employees in the UK, France, Belgium, 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 £7.8m (2021: £6.4m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2022 contributions of £0.4m (2021: £0.3m) 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**

| | **2022 £m** | 2021 £m |
|---|---|---|
| UK Scheme | **–** | – |
| Non-UK Schemes | **10.9** | 13.9 |
| | **10.9** | 13.9 |

**Total expense recognised in the income statement**

| | **2022 £m** | 2021 £m |
|---|---|---|
| UK Scheme[1] | **0.5** | 0.5 |
| Non-UK Schemes[1] | **0.7** | 1.2 |
| | **1.2** | 1.7 |

1 The UK Scheme is closed to new members and the accrual of benefits and the costs represent administrative costs only. 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 exposes the Group to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

The Scheme operates under UK trust law and the trust is a separate legal entity from the Group. The Scheme is governed by a board of trustees, composed of two member representatives, two employer representatives and one independent trustee. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment, funding) together with the Group.

Funding of the Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group in respect of the 6 April 2017 actuarial valuation. The actuarial valuation of the Scheme as at 6 April 2020 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2022.

The contributions made by the employer over the financial year have been £0.5m in respect of ongoing expenses. It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the consolidated income statement and in the consolidated statement of comprehensive income. The UK Scheme was closed to new entrants and future accrual in 2019.

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 2022 a restriction has been applied to the balance sheet, and the net surplus recognised on the balance sheet has been restricted to £nil.

## 27. Retirement benefit schemes continued

**Reconciliation of opening and closing balances of the present value of the defined benefit obligation (UK Scheme)**

| | 2022 £m | 2021 £m |
|---|---|---|
| Defined benefit obligation at start of year | **101.9** | 124.9 |
| Interest expense | **1.8** | 1.6 |
| Actuarial gains arising from changes in demographic assumptions | **(0.5)** | (5.7) |
| Actuarial gains arising from changes in financial assumptions | **(35.4)** | (5.8) |
| Experience (losses)/gains | **3.3** | (3.9) |
| Benefits paid, death in service insurance premiums and expenses | **(6.8)** | (9.2) |
| Past service cost | **0.1** | – |
| Defined benefit obligation at end of year | **64.4** | 101.9 |

**Reconciliation of opening and closing balances of the fair value of the assets (UK Scheme)**

| | 2022 £m | 2021 £m |
|---|---|---|
| Fair value of assets at start of year | **115.9** | 127.2 |
| Interest income | **2.0** | 1.6 |
| Return on scheme assets excluding interest income | **(43.7)** | (3.6) |
| Scheme administration expenses | **(0.4)** | (0.5) |
| Contributions by employer | **0.4** | 0.4 |
| Benefits paid, death in service insurance premiums and expenses | **(6.8)** | (9.2) |
| Fair value of assets at end of year | **67.4** | 115.9 |

**Total expense recognised in the income statement (UK Scheme)**

| | 2022 £m | 2021 £m |
|---|---|---|
| Past service cost | **0.1** | – |
| Scheme administration expenses | **0.4** | 0.5 |
| | **0.5** | 0.5 |

**Assets (UK Scheme)**

| | 2022 Quoted[1] £m | 2022 Unquoted £m | 2021 Quoted[1] £m | 2021 Unquoted £m |
|---|---|---|---|---|
| Bonds | **12.8** | **6.0** | 32.9 | 5.7 |
| Liability Driven Investment | **15.4** | **–** | 27.6 | – |
| Diversified credit funds | **12.0** | **11.8** | 36.1 | 12.9 |
| Cash and cash equivalents | **9.4** | **–** | 0.7 | – |
| | **49.6** | **17.8** | 97.3 | 18.6 |

1 Quoted scheme assets include assets which have a quoted market price in active markets held within investment trusts.

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 investment strategy is currently under review following the period of heightened market volatility towards the end of September 2022 and into October 2022, in particular within the UK government bond market. Over the period, the Scheme took several actions to aid its liquidity position and its ability to provide collateral to support the Liability Driven Investment (LDI) mandate. These actions included redemptions from non-LDI investments. This has meant that the current asset allocation has deviated from the existing target asset allocation with around 60% of assets currently held in 'liability-matching' portfolio (target 81%), comprising LDI, money market and shorter-term credit-based investments, and around 40% of assets currently held in 'non-matching' asset classes (target 19%), predominantly longer-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. In the final quarter of the year rising gilt yields led to both a decline in the defined benefit liability and the value of LDIs as expected resulting in a decline in Scheme assets during the year leading to a need to hold a greater amount in liquid assets, such as cash, to use for collateral purposes. Despite the decline in asset values the Scheme still remains in a surplus position.

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 27. Retirement benefit schemes continued

### Assumptions for 2022 (UK Scheme)

| | **2022 % per annum** | 2021 % per annum |
|---|---|---|
| RPI inflation | **3.25** | 3.40 |
| CPI inflation | **2.95** | 3.10 |
| Salary increases | **n/a** | n/a |
| Rate of discount | **4.70** | 1.80 |
| Allowance for pension in payment increases of RPI or 3% p.a. if more | **2.12** | 2.61 |
| Allowance for revaluation of deferred pensions | **2.95** | 3.10 |

### Mortality – current pensioners (UK Scheme)

| Actuarial tables used | **2022 S$^3$PxA YoB CMI 2021 1.5% long-term trend** | 2021 S$^3$PxA YoB CMI 2020 1.5% long-term trend |
|---|---|---|
| Life expectancy for members currently aged 65 | **21.3** | 21.3 |

### Mortality – future pensioners (UK Scheme)

| Actuarial tables used | **2022 S$^3$PxA YoB CMI 2021 1.5% long-term trend** | 2021 S$^3$PxA YoB CMI 2020 1.5% long-term trend |
|---|---|---|
| Life expectancy at age 65 for members currently aged 45 | **22.9** | 23.0 |

| Cash commutation: | **2022 All members commute 75% of maximum permitted** | 2021 All members commute 75% of maximum permitted |
|---|---|---|

The weighted average duration of the defined benefit obligation at 31 December 2022 is approximately 15 years (31 December 2021: 18 years).

The defined benefit obligation at 31 December 2022 can be approximately attributed to the scheme members as follows:

– Active members: 0% (31 December 2021: 0%)
– Deferred members: 40% (31 December 2021: 49%)
– Pensioner members: 60% (31 December 2021: 51%)

All benefits are vested at 31 December 2022 (unchanged from 31 December 2021).

### Present value of defined benefit obligations, fair value of assets and deficit (UK Scheme)

| | **2022 £m** | 2021 £m |
|---|---|---|
| Present value of defined benefit obligation | **64.4** | 101.9 |
| Fair value of plan assets | **(67.4)** | (115.9) |
| Scheme surplus | **(3.0)** | (14.0) |
| Adjustment relating to asset ceilings and minimum funding requirements | **3.0** | 14.0 |
| Net defined benefit asset before deferred tax | **–** | – |

### Reconciliation of asset ceiling (UK Scheme)

| | **2022 £m** | 2021 £m |
|---|---|---|
| Restriction due to asset ceiling at beginning of period | **14.0** | 2.3 |
| Interest on asset restriction | **0.2** | – |
| Other changes in asset restriction | **(11.2)** | 11.7 |
| Restriction due to asset ceiling at end of period | **3.0** | 14.0 |

## 27. Retirement benefit schemes continued

The best estimate of contributions to be paid into the plan for the year ending 31 December 2023 is £0.4m.

**Amounts recognised in other comprehensive income (UK Scheme)**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Return on scheme assets excluding interest income | **(43.7)** | (3.6) |
| Actuarial gains arising from changes in financial assumptions | **35.4** | 5.8 |
| Actuarial gains arising from changes in demographic assumptions | **0.5** | 5.7 |
| Experience(losses)/gains on liabilities | **(3.3)** | 3.9 |
| Gain/(loss) due to change in asset restriction | **11.2** | (11.7) |
| Total gain recognised in other comprehensive income | **0.1** | 0.1 |

**Impact of changes to assumptions (UK Scheme)**

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase £m** | **Decrease £m** | Increase £m | Decrease £m |
| 0.5% change in discount rate | **(4.1)** | **4.5** | (8.1) | 8.1 |
| 0.5% change in price inflation (and associated assumptions) | **1.6** | **(1.5)** | 3.7 | (3.7) |
| One-year change in life expectancy at age 65 | **2.2** | **(2.2)** | (4.4) | 4.4 |

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.

**Combined non-UK disclosures**

The Group operates defined benefit schemes in the USA and continental Europe.

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

During the year, the US defined benefit pension scheme was settled. The settlement resulted in a loss of £0.1m which has been recognised in the consolidated income statement. After full settlement, the scheme held surplus cash of £1.8m. Following plan settlement, all remaining obligations have been settled and Bodycote has no further legal or constructive obligations to pay any benefits to previous plan members. This surplus has therefore been recognised on the consolidated balance sheet as a cash equivalent with a corresponding credit to other comprehensive income.

**Reconciliation of opening and closing balances of the present value of the defined benefit obligation (non-UK schemes)**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Defined benefit obligation at start of year | **24.0** | 26.4 |
| Current service cost | **0.5** | 0.8 |
| Interest expense | **0.2** | 0.2 |
| Actuarial losses/(gains) arising from changes in demographic assumptions | **0.5** | (0.3) |
| Actuarial gains arising from changes in financial assumptions | **(4.1)** | (1.3) |
| Experience gains on liabilities | **(1.5)** | (0.4) |
| Benefits paid, death in service insurance premiums and expenses | **(1.6)** | (0.9) |
| Employee contributions | **0.1** | 0.1 |
| Settlements | **(3.8)** | – |
| Curtailments | **–** | 0.3 |
| Exchange rate loss/(gain) | **1.9** | (0.9) |
| Defined benefit obligation at end of year | **16.2** | 24.0 |

# Notes to the consolidated financial statements continued

Year ended 31 December 2022

## 27. Retirement benefit schemes continued

**Reconciliation of opening and closing balances of the fair value of plan assets (non-UK schemes)**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Fair value of assets at start of year | **12.2** | 11.2 |
| Interest income | **0.1** | 0.1 |
| Return on scheme assets excluding interest income | **(1.7)** | 1.2 |
| Scheme administration expenses | **(0.2)** | – |
| Contributions by employer | **0.1** | 0.1 |
| Contributions by employees | **0.1** | 0.1 |
| Benefits paid, death in service insurance premiums and expenses | **(0.9)** | (0.5) |
| Settlements | **(5.4)** | – |
| Exchange rate gain/(loss) | **1.0** | – |
| Fair value of assets at end of year | **5.3** | 12.2 |

**Total expense recognised in the income statement (non-UK schemes)**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Current service cost | **0.5** | 0.8 |
| Net interest on the defined benefit liability | **0.1** | 0.1 |
| Scheme administration expenses | **0.2** | – |
| Settlements | **(0.1)** | – |
| Curtailments | **–** | 0.3 |
| Total expense | **0.7** | 1.2 |

**Assets (non-UK schemes)**

| | **2022 Quoted[1] £m** | **2022 Unquoted £m** | 2021 Quoted[1] £m | 2021 Unquoted £m |
|---|---|---|---|---|
| Cash and cash equivalents | **1.7** | **–** | – | – |
| Equities | **–** | **–** | 6.0 | – |
| Collective Foundation receivables | **–** | **5.3** | – | 6.2 |
| Total | **1.7** | **5.3** | 6.0 | 6.2 |

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 2022 (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** | **3.2** | **2.0** | **1.0** |
| Germany | **2.5** | **4.2** | **n/a** | **2.3** |
| Italy | **2.5** | **3.8** | **2.5** | **n/a** |
| Turkey | **10.5** | **15.0** | **10.5** | **n/a** |
| Liechtenstein | **2.5** | **2.3** | **n/a** | **n/a** |
| Switzerland | **n/a** | **2.3** | **n/a** | **n/a** |

There were no significant changes to these assumptions compared to the prior year.

## 27. Retirement benefit schemes continued

### Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2022 range from 8 years to 17 years. The durations ranged from 11 years to 20 years as at 31 December 2021.

### Present value of defined benefit obligations, fair value of assets and deficit (non-UK schemes)

| | **2022 £m** | 2021 £m |
|---|---|---|
| Present value of defined benefit obligation | **16.2** | 24.0 |
| Fair value of plan assets | **(5.3)** | (12.2) |
| Deficit in the schemes | **10.9** | 11.8 |
| Adjustment relating to asset ceilings and minimum funding requirements | **–** | 2.1 |
| Net defined benefit liability, before deferred tax | **10.9** | 13.9 |

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2022 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 | **(1.7)** | 1.2 |
| Actuarial gains arising from changes in financial assumptions | **4.1** | 1.3 |
| Actuarial (loss)/gains arising from changes in demographic assumptions | **(0.5)** | 0.3 |
| Experience gains on liabilities | **1.5** | 0.4 |
| Gain/(loss) due to change in asset restriction | **2.3** | (1.2) |
| Total gain recognised in other comprehensive income | **5.7** | 2.0 |

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 2023 is £0.2m.

### Sensitivities (changes to total defined benefit obligations) (non-UK schemes)

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase £m** | **Decrease £m** | Increase £m | Decrease £m |
| 0.25% change in discount rate | **(0.5)** | **0.5** | (0.8) | 0.8 |
| 0.25% change in price inflation (and associated assumptions) | **0.3** | **(0.3)** | 0.4 | (0.4) |

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.

## 28. 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.

# Company balance sheet

## At 31 December 2022

| | Note | 2022 £m | 2021 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 3 | **27.1** | 18.8 |
| Property, plant and equipment | 4 | **0.2** | 0.2 |
| Right-of-use assets | 5 | **0.1** | 0.2 |
| Investments in subsidiaries | 6 | **388.9** | 389.0 |
| Trade and other receivables | 7 | **49.9** | 101.3 |
| | | **466.2** | 509.5 |
| **Current assets** | | | |
| Trade and other receivables | 7 | **6.8** | 4.0 |
| Cash and bank balances | | **–** | 0.1 |
| | | **6.8** | 4.1 |
| **Total assets** | | **473.0** | 513.6 |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **7.3** | 13.2 |
| Lease liabilities | 5 | **0.1** | 0.2 |
| | | **7.4** | 13.4 |
| **Net current liabilities** | | **(0.6)** | (9.3) |
| **Non-current liabilities** | | | |
| Trade and other payables | 8 | **4.8** | 14.0 |
| Deferred tax liabilities | 9 | **1.3** | – |
| Lease liabilities | 5 | **–** | 0.1 |
| | | **6.1** | 14.1 |
| **Total liabilities** | | **13.5** | 27.5 |
| **Net assets** | | **459.5** | 486.1 |
| **Equity** | | | |
| Share capital | 10 | **33.1** | 33.1 |
| Share premium account | | **177.1** | 177.1 |
| Own shares | | **(5.2)** | (6.3) |
| Other reserves | | **136.6** | 136.3 |
| Profit / (loss) for year | | **10.6** | (3.0) |
| Retained earnings | | **107.3** | 148.9 |
| **Total equity** | | **459.5** | 486.1 |

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 17 March 2023.

They were signed on its behalf by:

S.C. Harris
Director

D. Yates
Director



# Company statement of changes in equity

Year ended 31 December 2022

| | Share capital £m | Share premium account £m | Own shares £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **1 January 2021** | 33.1 | 177.1 | (7.0) | 132.4 | 197.5 | 533.1 |
| Loss for the year | – | – | – | – | (3.0) | (3.0) |
| Actuarial gain on defined benefit pension schemes net of deferred tax | – | – | – | – | 0.2 | 0.2 |
| Total comprehensive expense for the year | – | – | – | – | (2.8) | (2.8) |
| Dividends paid | – | – | – | – | (49.0) | (49.0) |
| Share-based payments | – | – | – | 4.7 | – | 4.7 |
| Settlement of share options | – | – | 0.7 | (0.8) | 0.2 | 0.1 |
| **31 December 2021** | 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 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 options | – | – | 1.1 | (1.0) | (0.2) | (0.1) |
| **31 December 2022** | **33.1** | **177.1** | **(5.2)** | **136.6** | **117.9** | **459.5** |

Details of dividends paid are set out in note 7 of the consolidated financial statements.

Details of share-based payment transactions are set out in note 25 of the 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.

At 31 December 2022, 639,125 (2021: 775,962) 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 £3.6m (2021: £6.7m).

Included in other reserves is £6.6m (2021: £5.9m) relating to a share option reserve and a capital redemption reserve of £129.8m (2021: £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 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 on pages 96 to 97.

## 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.

Per 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, in line with the maturity date of the Group's Revolving Credit Facility. The interest rate for such facility was at SONIA plus 1.95% margin in 2022.

## 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, in line with the maturity date of the Group's Revolving Credit Facility. The interest rate for such facility was at SONIA plus 1.2% margin in 2022.

## 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 options.

## 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 27 of the Group consolidated financial statements. Refer to note 12 for judgements identified in relation to the non-recognition of the pension surplus.

# Notes to the company financial statements

Year ended 31 December 2022

## 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 2022 of £10.6m (2021: loss of £3.0m).

The auditor's remuneration for audit and other services is disclosed in note 2 of the Group's consolidated financial statements.

## 2. Employees

| | **2022 Number** | 2021 Number |
|---|---|---|
| Average monthly number of employees | **48** | 51 |

| | **£m** | **£m** |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages and salaries | **6.3** | 8.3 |
| Social security costs | **1.0** | 1.2 |
| Pension costs | **0.5** | 0.4 |
| | **7.8** | 9.9 |

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £0.4m (2021: £1.1m).

All Directors of the Group with the exception of Dominique Yates are remunerated through the Company and these costs are reflected in the financial statements of the Company. Dominique Yates is remunerated through Bodycote (Suisse) SA, a direct subsidiary of the Company and these costs are reflected in the financial statements of the Group and Bodycote (Suisse) SA. Disclosure of individual Directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the tables in the Board report on remuneration on pages 68 to 82.

## 3. Intangible assets

| | **Software £m** |
|---|---|
| **Cost** | |
| At 1 January 2022 | 37.7 |
| Additions | 10.4 |
| Disposals | (2.6) |
| **At 31 December 2022** | **45.5** |
| **Amortisation** | |
| At 1 January 2022 | 18.9 |
| Charge for the year | 1.6 |
| Disposals | (2.1) |
| **At 31 December 2022** | **18.4** |
| **Net book value** | |
| **At 31 December 2022** | **27.1** |
| At 31 December 2021 | 18.8 |

Included in software assets are ongoing development costs related to the Group's ERP solutions. £22.9m (2021: £12.6m) 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 include £4.3m (2021 £nil) charged from other Group companies for the ongoing ERP development.

# Notes to the company financial statements continued

For the year ended 31 December 2022

## 4. Property, plant and equipment

| | Fixtures and fittings £m |
|---|---|
| **Cost** | |
| At 1 January 2022 | 1.0 |
| Additions | 0.3 |
| Disposals | (0.3) |
| **At 31 December 2022** | **1.0** |
| **Depreciation** | |
| At 1 January 2022 | **0.8** |
| **At 31 December 2022** | **0.8** |
| **Net book value** | |
| **At 31 December 2022** | **0.2** |
| At 31 December 2021 | 0.2 |

## 5. Right-of-use assets

| | Buildings and vehicles £m |
|---|---|
| **Cost** | |
| **At 1 January 2022 and 31 December 2022** | **2.3** |
| **Depreciation** | |
| At 1 January 2022 | 2.1 |
| Charge for the year | 0.1 |
| **At 31 December 2022** | **2.2** |
| **Net book value** | |
| **At 31 December 2022** | **0.1** |
| At 31 December 2021 | 0.2 |

| | 2022 £m | 2021 £m |
|---|---|---|
| **Lease liabilities** | | |
| **Maturity analysis – contractual undiscounted cash flows** | | |
| Less than one year | **0.1** | 0.2 |
| One to five years | **–** | 0.1 |
| **Total undiscounted cash flows** | **0.1** | 0.3 |
| | | |
| Current | **0.1** | 0.2 |
| Non-current | **–** | 0.1 |
| **Total lease liabilities** | **0.1** | 0.3 |

## 6. Investments in subsidiaries

| | £m |
|---|---|
| **Cost** | |
| At 1 January 2022 | 397.6 |
| Disposals | (2.1) |
| **At 31 December 2022** | **395.5** |
| **Provision for impairment** | |
| At 1 January 2022 | 8.6 |
| Disposals | (2.0) |
| **At 31 December 2022** | **6.6** |
| **Net book value** | |
| **At 31 December 2022** | **388.9** |
| At 31 December 2021 | 389.0 |

Disposals in the year are of Bodycote Canada Property Inc. which was dissolved in December 2022.

## 6. Investments in subsidiaries continued

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 consolidated financial statements of Bodycote plc as at 31 December 2022.

Bodycote Heat Treatments Limited

Bodycote Surface Technology Limited

Bodycote H.I.P. Limited

Bodycote America Finance Limited

Bodycote America Treasury Limited

Bodycote Finance Limited

Bodycote Finance UK Limited

Bodycote International Limited

Bodycote Investments

Bodycote Nominees No. 1 Limited

Bodycote Pension Trustees Limited

Bodycote HIP Germany Limited

Bodycote Thermal Processing Mexico Limited

Bodycote America Capital Limited

A full list of directly and indirectly owned subsidiary undertakings can be found on page 149.

## 7. Trade and other receivables

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by subsidiary undertakings | **2.1** | 0.9 |
| Corporation tax | **2.8** | 2.7 |
| Other receivables and prepayments | **1.9** | 0.4 |
| | **6.8** | 4.0 |
| **Amounts falling due after more than one year:** | | |
| Amounts owed by subsidiary undertakings[1] | **49.2** | 100.3 |
| Other receivables | **0.7** | 1.0 |
| | **49.9** | 101.3 |
| | **56.7** | 105.3 |

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. Loans are repayable on 27 May 2027, in line with the maturity date of the Group's Revolving Credit Facility.

## 8. Trade and other payables

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade payables | **0.4** | 0.1 |
| Amounts owed to subsidiary undertakings | **0.2** | 4.3 |
| Other taxes and social security | **0.2** | 0.6 |
| Other payables | **2.3** | 3.9 |
| Accruals | **4.2** | 4.3 |
| | **7.3** | 13.2 |
| **Amounts falling due after more than one year:** | | |
| Amounts owed to subsidiary undertakings[1] | **4.8** | 14.0 |
| | **4.8** | 14.0 |

1 Intercompany loan from Bodycote Finance Limited, repayable on 27 May 2027, in line with the maturity date of the Group's Revolving Credit Facility.

# Notes to the company financial statements continued

For the year ended 31 December 2022

## 9. 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 2021 | 1.3 | – | 0.4 | 1.7 |
| (Charge)/credit to profit or loss | (1.8) | (0.1) | 0.1 | (1.8) |
| Credit to other comprehensive income | – | 0.1 | – | 0.1 |
| At 1 January 2022 | (0.5) | – | 0.5 | – |
| Charge to profit or loss | (1.0) | – | (0.3) | (1.3) |
| **At 31 December 2022** | **(1.5)** | **–** | **0.2** | **(1.3)** |

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:

| | 2022 £m | 2021 £m |
|---|---|---|
| Net deferred tax liability | **(1.3)** | – |

## 10. Share capital

**Share capital:**

**Ordinary shares (allotted, called-up and fully paid)**

| | Number of shares | £m |
|---|---|---|
| At 1 January 2022 | 191,456,172 | 33.1 |
| **At 31 December 2022** | **191,456,172** | **33.1** |

Details of share options in issue on the Company's share capital and share-based payments are set out in note 25 of the consolidated financial statements.

## 11. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £74.4m (2021: £94.1m). The likelihood of these guarantees being called is considered to be unlikely, therefore the estimated financial effect on the Company is £nil (2021: £nil).

## 12. Pension commitments

The Company participates in a final salary defined benefit scheme in the UK, the details of which are disclosed in note 27 of the consolidated financial statements. This is a defined benefit plan which shares the risks between entities under common control. There is no contractual agreement or policy for charging the net benefit cost between entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. The net defined benefit costs are recognised as per the requirements of IAS 19 Employee Benefits.

The Company acknowledges that the recognition of pension scheme surpluses 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 2022 was £3.1m (2021: £14.0m). Full disclosures concerning the scheme as required by IAS 19 are set out in note 27 of the consolidated financial statements and full disclosure concerning IFRIC 14 is set out in note 27 of the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.5m (2020: £0.4m). As at 31 December 2022, contributions of £nil (2021: £nil) due in respect of the current year had not been paid over to the scheme.

## 13. Related party transactions

Other than payments made to retirement benefit schemes set out in note 27 of the consolidated financial statements and the Directors set out in the Board report on remuneration on pages 68 to 82 and note 26 of the consolidated financial statements, there are no other related party transactions to disclose. The Company has taken the exemption available under FRS 101 not to disclose transactions with wholly owned subsidiary companies.

# Five- year summary (unaudited)

| | **2022 £m** | 2021 £m | 2020 £m | 2019 £m | 2018[1] £m |
|---|---|---|---|---|---|
| **Revenue** | **743.6** | 615.8 | 598.0 | 719.7 | 728.6 |
| **Profit:** | | | | | |
| **Headline operating profit** | **112.2** | 94.8 | 75.3 | 134.9 | 140.7 |
| Amortisation of acquired intangible assets | **(9.3)** | (10.3) | (9.8) | (4.6) | (3.7) |
| Acquisition costs | **(0.9)** | (0.7) | (2.1) | (1.7) | (0.5) |
| **Operating profit prior to exceptional items** | **102.0** | 83.8 | 63.4 | 128.6 | 136.5 |
| Exceptional items | **–** | – | (58.4) | – | – |
| **Operating profit** | **102.0** | 83.8 | 5.0 | 128.6 | 136.5 |
| Net finance charge | **(6.7)** | (6.3) | (6.5) | (4.7) | (4.3) |
| **Profit/(loss) before taxation** | **95.3** | 77.5 | (1.5) | 123.9 | 132.2 |
| Taxation | **(21.0)** | (17.5) | 2.3 | (29.9) | (28.6) |
| **Profit after taxation** | **74.3** | 60.0 | 0.8 | 94.0 | 103.6 |
| Non-controlling interests | **(0.6)** | (0.5) | (0.4) | (0.2) | (0.4) |
| **Profit attributable to the equity holders of the parent** | **73.7** | 59.5 | 0.4 | 93.8 | 103.2 |
| Headline earnings per share (pence) | **42.7** | 35.8 | 27.8 | 52.1 | 55.9 |
| Dividend per share (pence) | **21.3** | 20.0 | 19.4 | 19.3 | 19.0 |
| Special dividend per share (pence) | **–** | – | – | – | 20.0 |
| **Assets employed** | | | | | |
| Intangible assets | **344.7** | 322.0 | 323.5 | 212.4 | 206.9 |
| Property, plant and equipment | **516.3** | 489.3 | 522.6 | 534.5 | 546.6 |
| Other assets and liabilities | **20.4** | (9.5) | (66.6) | 17.4 | 9.9 |
| | **881.4** | 801.8 | 779.5 | 764.3 | 763.4 |
| **Financed by** | | | | | |
| Share capital | **33.1** | 33.1 | 33.1 | 33.1 | 33.1 |
| Reserves | **747.8** | 651.6 | 647.4 | 671.9 | 685.5 |
| **Shareholders' funds** | **780.9** | 684.7 | 680.5 | 705.0 | 718.6 |
| Non-controlling interests | **1.1** | 0.7 | 0.9 | 0.8 | 0.7 |
| Lease liabilities | **66.0** | 64.5 | 75.6 | 79.4 | 80.3 |
| Net debt/(cash) | **33.4** | 51.9 | 22.5 | (20.9) | (36.2) |
| **Capital employed** | **881.4** | 801.8 | 779.5 | 764.3 | 763.4 |
| **Net assets per share (pence)** | **407.9** | 357.6 | 355.4 | 368.2 | 375.3 |
| **Return on capital employed (%):** | | | | | |
| Headline operating profit divided by the average of opening and closing capital employed | **13.3** | 12.0 | 9.8 | 17.7 | 18.9 |

1 Restated following adoption of IFRS 16 Leases on 1 January 2018.

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

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

**Headline operating profit**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Operating profit | **102.0** | 83.8 |
| Add back: | | |
| Amortisation of acquired intangibles | **9.3** | 10.3 |
| Acquisition costs | **0.9** | 0.7 |
| Exceptional items | **–** | – |
| **Headline operating profit** | **112.2** | 94.8 |

**Headline operating margin**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Headline operating profit | **112.2** | 94.8 |
| Revenue | **743.6** | 615.8 |
| **Headline operating margin** | **15.1%** | 15.4% |

**Headline profit before taxation**

| | **2022 £m** | 2021 £m |
|---|---|---|
| Profit before taxation | **95.3** | 77.5 |
| Add back: | | |
| Amortisation of acquired intangibles | **9.3** | 10.3 |
| Acquisition costs | **0.9** | 0.7 |
| Exceptional items | **–** | – |
| **Headline profit before taxation** | **105.5** | 88.5 |

### EBITDA and headline EBITDA (earnings before interest, taxation, depreciation and amortisation)

| | **2022 £m** | 2021 £m |
|---|---|---|
| Operating profit | **102.0** | 83.8 |
| Depreciation and amortisation | **84.3** | 83.7 |
| Depreciation on mothballed sites due to restructuring recognised in exceptional items | **–** | 0.6 |
| Impairment (reversal)/charge of property, plant and equipment and other assets - recognised in exceptional items | **(0.1)** | 5.5 |
| Impairment of property, plant and equipment and other assets – recognised in operating profit | **4.8** | – |
| Profit on disposal of property, plant and equipment – recognised in operating profit | **(1.7)** | – |
| Profit on disposal of right-of-use assets – recognised in operating profit | **(0.1)** | – |
| Loss/(profit) on disposal of property, plant and equipment – recognised in exceptional items | **0.1** | (4.8) |
| Share-based payments | **1.7** | 4.7 |
| Income from associate prior to disposal | **–** | (0.1) |
| Loss on disposal of associate | **–** | 0.4 |
| **EBITDA** | **191.0** | 173.8 |
| Acquisition costs | **0.9** | 0.7 |
| Exceptional items, excluding impairments | **(0.1)** | (1.3) |
| Share-based payments | **(1.7)** | (4.7) |
| **Headline EBITDA** | **190.1** | 168.5 |
| **Headline EBITDA margin** | **25.6%** | 27.4% |

### Organic revenue

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

| | **2022 £m** | 2021 £m |
|---|---|---|
| Total revenue | **743.6** | 615.8 |
| Less adjustments for revenue from acquisitions completed in the current or prior year | **(8.6)** | (32.8) |
| **Total organic revenue** | **735.0** | 583.0 |

### Headline operating cash flow

| | **2022 £m** | 2021 £m |
|---|---|---|
| Headline EBITDA | **190.1** | 168.5 |
| Less: | | |
| Net maintenance capital expenditure | **(52.2)** | (43.1) |
| Net working capital movement | **(25.3)** | (3.4) |
| **Headline operating cash flow** | **112.6** | 122.0 |

### Free cash flow

| | **2022 £m** | 2021 £m |
|---|---|---|
| Headline operating cash flow | **112.6** | 122.0 |
| Less: | | |
| Restructuring cash flows | **(7.4)** | (2.3) |
| Income taxes paid | **(15.4)** | (9.5) |
| Interest paid | **(5.8)** | (5.2) |
| **Free cash flow** | **84.0** | 105.0 |

### Headline operating cash conversion

| | **2022 £m** | 2021 £m |
|---|---|---|
| Headline operating cash flow | **112.6** | 122.0 |
| Headline operating profit | **112.2** | 94.8 |
| **Headline operating cash conversion** | **100.4%** | 128.7% |

### Free cash flow conversion

| | **2022 £m** | 2021 £m |
|---|---|---|
| Free cash flow | **84.0** | 105.0 |
| Headline operating profit | **112.2** | 94.8 |
| **Free cash flow conversion** | **74.9%** | 110.8% |

# Alternative performance measures (APMs) – unaudited

continued

### Headline tax charge

| | 2022 £m | 2021 £m |
|---|---|---|
| Tax charge/(credit) | **21.0** | 17.5 |
| Tax on amortisation of acquired intangibles | **2.3** | 2.5 |
| Tax on exceptional items and acquisition costs | **0.2** | (0.3) |
| **Headline tax charge** | **23.5** | 19.7 |

### Headline tax rate

| | 2022 £m | 2021 £m |
|---|---|---|
| Headline tax charge | **23.5** | 19.7 |
| Headline profit before taxation | **105.5** | 88.5 |
| **Headline tax rate** | **22.3%** | 22.3% |

### Headline earnings per share

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

### Net debt and net debt plus lease liabilities

| | 2022 £m | 2021 £m |
|---|---|---|
| Cash and bank balances | **37.2** | 39.3 |
| Bank overdrafts (included in borrowings) | **(1.0)** | (1.4) |
| Derivative financial instruments | **–** | 0.5 |
| Bank loans (included in borrowings) | **(69.6)** | (90.3) |
| **Net debt** | **(33.4)** | (51.9) |
| Lease liabilities | **(66.0)** | (64.5) |
| **Net debt plus lease liabilities** | **(99.4)** | (116.4) |

### Return on capital employed (%)

| | 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%** |

| | Year to 31 December 2021 | | | |
|---|---|---|---|---|
| | ADE £m | AGI £m | Central cost and eliminations £m | Consolidated £m |
| Headline operating profit | 44.2 | 69.5 | (18.9) | 94.8 |
| Average capital employed[1] | 407.0 | 436.6 | (53.6) | 789.9 |
| **Return on capital employed (%)** | 10.8% | 15.9% | n/a | 12.0% |

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

### Revenue and headline operating profit at constant exchange rates

Reconciled to revenue and headline operating profit in the table below:

| | Year to 31 December 2022 | | | |
|---|---|---|---|---|
| | **ADE £m** | **AGI £m** | **Central cost and eliminations £m** | **Consolidated £m** |
| Revenue | **312.7** | **430.9** | **–** | **743.6** |
| Constant exchange rates adjustment | **(17.5)** | **(4.0)** | **–** | **(21.5)** |
| Revenue at constant currency | **295.2** | **426.9** | **–** | **722.1** |
| | | | | |
| Headline operating profit | **50.8** | **80.8** | **(19.4)** | **112.2** |
| Constant exchange rates adjustment | **(2.4)** | **0.8** | **1.9** | **0.3** |
| Headline operating profit at constant currency | **48.4** | **81.6** | **(17.5)** | **112.5** |

# 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

**9 Shirley Avenue, Kitchener, Ontario, N2B 2E6, Canada**
Bodycote Canada Property Inc.[4] – company dissolved 13.12.2022

**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]

**Room 201, 2F, Building 9, International Innovation Park (Phase II), Jiaxing Advanced Manufacturing Industrial Base, No. 1188 Fenghua Road, Jiaxing Economic and Technological Development Zone, Jiaxing City, 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 Specialist Technologies GmbH[1]
Bodycote Specialist Technologies Deutschland GmbH[1]
Bodycote VHK Vakuum-Härterei Köllner GmbH[1]
Bodycote Wärmebehandlung GmbH[1]

## Incorporated in Ireland

**12 Merrion Square North, Dublin 2, Ireland**

Bodycote Ireland Finance DAC[6]
Bodycote Ireland Treasury Limited[6] – A and B ordinary shares – company dissolved 18.05.2022

## Incorporated in Jersey

**50 La Colomberie, St Helier, JE2 4QB, Jersey**

Bodycote Jersey Finance Limited[6] – company dissolved 30.12.2022
Bodycote Jersey Holdings Limited[3]

## Incorporated in Mexico

**Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico**

Bodycote de SLP, S. de R.L. de C.V.[1]
Bodycote Testing de Mexico, S. de R.L. de C.V.[2]
Bodycote Thermal Processing de Mexico, S. de R.L. de C.V.[1]
Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.[6]

## Incorporated in Sweden

**Box 209, 735 23, Surahammar, Sweden**

Bodycote Hot Isostatic Pressing 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]
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 Hökezelö 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 Specialist Technologies Deutschland GmbH, Bodycote Specialist Technologies GmbH, Bodycote VHK Vakuum-Härterei Köllner GmbH and Bodycote Wärmebehandlung GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2022, 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 2022 will be included in the consolidated annual accounts of Bodycote European Holdings GmbH.

# Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Email: Log on to help.shareview.co.uk (from here you will be able to email your query securely).

– Change of address

– Lost share certificates or dividend cheques

– Dividend mandates

– Amalgamation of holdings

Forms for some of these matters can be downloaded from the registrars' website www.shareview.co.uk. Shareholders can easily access and maintain their shareholding online by registering at www.shareview.co.uk. To register, shareholders will require their shareholder reference number which was recently provided. This is the 11 digit number found on recent dividend correspondence.

## 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 look online at www.shareview.co.uk for up-to-date commission rates.

## Dividend reinvestment plan (DRIP)

Equiniti's Dividend Reinvestment Plan offers a convenient way for shareholders to build up their shareholding by using dividend payments to purchase additional shares. The plan is provided by Equiniti Financial Services Limited, part of Equiniti Group, which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 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

It is important to remember that the value of shares and dividend payments can fall as well as rise and you may not recover the amount of money that you invest. Past performance should not be seen as indicative of future performance.

## Overseas shareholders

Equiniti provides a service to overseas shareholders that will convert sterling dividends into local currency at a competitive rate. Dividend payments will then be made directly into your local bank account. For more information log on to www.shareview.co.uk/info/ops where you will find the answer to any queries you have, as well as the full terms and conditions of the service. Alternatively, please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 08.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.

## Duplicate share register accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that was not your intention you might consider merging them into one single entry. Please contact Equiniti, who will be pleased to carry out your instructions.

## Shareholder analysis

Analysis of share register as at 7 March 2023:

| Holding range | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 to 1,000 | 715 | 43.5 | 279,942 | 0.2 |
| 1,001 to 10,000 | 595 | 36.2 | 1,919,206 | 1.0 |
| 10,001 to 100,000 | 187 | 11.4 | 6,793,040 | 3.6 |
| 100,001 to 500,000 | 76 | 4.6 | 17,154,032 | 8.9 |
| 500,001 and over | 70 | 4.3 | 165,309,952 | 86.3 |
| | 1,643 | 100.0 | 191,456,172 | 100.0 |

| Type of shareholders | % of shareholders | % of total shares |
|---|---|---|
| Directors' interests | 0.4 | 0.4 |
| Major institutional and corporate holdings | 29.0 | 98.5 |
| Other shareholdings | 70.6 | 1.1 |
| | 100.0 | 100.0 |

As at 27 February 2022 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. | 13,240,015 | 6.9 |
| NNIP Advisors B.V. | 11,842,500 | 6.2 |
| Baillie Gifford & Co. | 9,186,526 | 4.8 |
| Fidelity Management & Research Company LLC | 9,035,569 | 4.7 |
| The Vanguard Group, Inc. | 8,536,218 | 4.5 |
| Newton Investment Management Ltd. | 7,429,935 | 3.9 |
| Aberdeen Standard Investments (Edinburgh) | 6,892,991 | 3.6 |
| Alantra Asset Management SGIIC, S.A. | 6,506,627 | 3.4 |
| Artemis Investment Management | 5,980,681 | 3.1 |

# 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.

**Solicitors**
Herbert Smith Freehills LLP and DLA Piper UK LLP.

## Financial calendar

| | |
|---|---|
| Annual General Meeting | 31 May 2023 |
| Final dividend for 2022 | 2 June 2023 |
| Interim results for 2023 | July 2023 |
| Interim dividend for 2023 | 3 November 2023 |
| Results for 2023 | March 2024 |

# www.bodycote.com

For the online version of this report go to
**www.bodycote.com/investors**

IMAGE REMOVED

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