

Corporate governance statement

Chairman's message

Dear Shareholders,

I am pleased to introduce the Group's corporate governance report on behalf of our Board of Directors. We are committed to maintaining high standards of corporate governance to enhance performance underpinned by our business model. We have sought to manage the affairs of the Group not by merely following regimented rules, but by promoting a culture of open and transparent discussion, constructive challenge and support in the Board and across the Group. Effective governance starts at the top, with clear roles, responsibilities and lines of reporting. Directors have to operate within applicable laws and regulations, which include corporate governance rules. In addition, directors have to operate within the mandate given to them by shareholders, for example, in the Company's Articles of Association. On a more practical level the directors operate under agreed Board procedures such as the schedule of matters reserved for the Board, the role and descriptions of the Chairman, Group Chief Executive and Senior Independent Director, and service contracts and appointment letters.

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

It is of great importance to me, as Chairman, to ensure that the Board has the right composition. This means having the right balance of skills and experience to contribute, and where appropriate challenge, decision making and ensuring that all directors have a good knowledge of the Group and the context in which it operates.

I encourage all shareholders to attend the AGM, which will be held at our Macclesfield head office on 27 May 2016. This event provides an excellent opportunity to meet the executive and independent non-executive directors.

A.M. Thomson

Chairman

Board performance

2015 key actions	2015 achievements	Priorities for 2016
■ Implement actions from the 2015 strategy review	■ Accelerated growth from Specialist Technologies and enhanced business processes	■ Undertake 2016 strategy review
■ Undertake 2015 external Board evaluation	■ All recommendations made at the 2012 external evaluation have been addressed	■ Process recommendations from the 2015 external Board evaluation
■ Appointment of a new Audit Committee Chairman and Senior Independent Director	■ I.B. Duncan was appointed Audit Committee Chairman and R. Rajagopal Senior Independent Director	■ Continued focus on management development and succession planning
■ Continued emphasis on external Board training and development	■ The Board visited plants in the UK and Poland during the year and developed the directors' understanding of these businesses and the markets they serve	■ Use Board visits to meet the Czech and Turkish teams to promote understanding of markets and the opportunities they offer
■ Continued review of the risk register, including major programme risks	■ During the year the Board reviewed the different elements of the Group's risk management framework and how it discharged its responsibilities	■ The Board will continue to review cyber security protection, the management of risk in major programmes and crisis management

Governance reporting

Board diversity

Bodycote is a global business with operations in 24 countries and diversity is an integral part of how we do business. The Nomination Committee considers diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in any new appointment must always be to select the best candidate. We have made progress in addressing the issue of Board gender and diversity by appointing E. Lindqvist to the Board as a Non-Executive Director on 1 June 2012. We also appointed I.B. Duncan as a Non-Executive Director on 17 November 2014 as part of Board refreshment. We will further address this issue when we discuss Board succession planning in the coming year. The Board is kept deliberately small and currently comprises two executive directors, three non-executive directors and a non-executive chairman. We believe it is difficult to set targets or timescales for the percentage of women, or any other group, on our Board and do not propose to do so.

Female representation on our Board is currently 17% (2014: 14%) and at manager level it is 24% (2014: 27%). Females represent 18% (2014: 17%) of our total workforce. We will increase female representation on the Board if appropriate candidates are available when Board vacancies arise.

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

Board evaluation

The Board has undertaken its second external Board Evaluation during 2015. Following a review of proposals from external facilitators, the Board appointed ICSA Board Evaluation to facilitate a review of its performance. The facilitator Mr G.A.G. Shephard (who is independent of the Group), met with each director on an individual basis to obtain their views on seven aspects of the Board's performance and to ascertain whether their needs and expectations were being met. The evaluator ensured that pre-defined constituent elements of each topic were covered in the discussions and a qualitative score was assigned by each director. The seven topics were as follows:

- Board responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements

The results of the evaluation were considered by the Board at its meeting in October 2015 which Mr Shephard attended and the directors discussed the recommendations which are now in the process of being implemented. Additional emphasis will be placed on succession planning and certain operational matters. The approach to Board Evaluation included relevant questions to cover the activities of each Board committee. The Board is considered to be functional and working well. Arising from the exercise, the Board has concluded that its focus should remain on divisional growth strategies, technology development, risk and sustainability as well as continued training. The overall conclusion is that the Board is performing well and high governance standards have been adopted. It is apparent that the Executive is being strongly challenged by the Board when appropriate.

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

The Executive Directors Messrs S.C. Harris and D.F. Landless were also appraised in February 2016.

Led by the Senior Independent Non-Executive Director, the directors carried out an evaluation of the Chairman's performance in September 2015. The Board is satisfied with the Chairman's commitment and performance.

Training

All new directors are subject to a tailored induction programme covering a diverse range of topics including trading, investor relations, organisational and legal matters. The Board receives training via ad hoc presentations and papers from advisers and the Group Company Secretary. External periodic training on important topics takes place through the Deloitte Academy and during the year the directors received training on financial reporting developments and in particular on the viability statement.

Succession planning

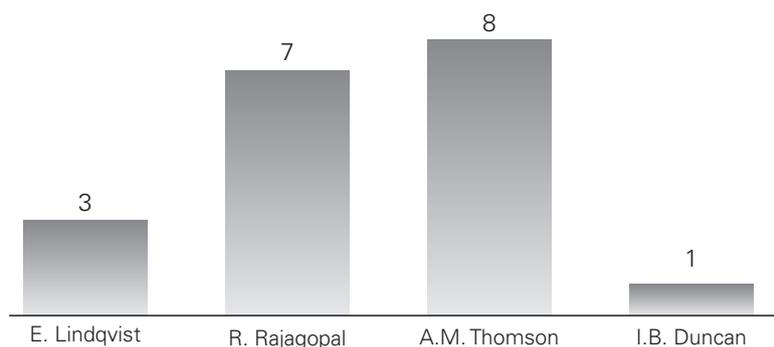
Succession planning ensures that appropriate senior executive leadership resources are in place to achieve Bodycote's strategic objectives. The plans are reviewed annually by the Nomination Committee.

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

Board refreshment will continue over the coming years.

Non-executive tenure

(in years)



Corporate governance statement continued

Individual roles of the Board

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

Core values

The Board acknowledges its responsibility for determining and maintaining the Group's values and ensures these are reflected in the business practices. This is monitored by the Board at regular intervals. Further details are available on page 31.

Pre-emption rights

In line with best practice provisions in the Pre-emption Group Statement of Principles, the Board confirms that it does not intend to issue more than 7.5% of the issued share capital of the Group on a non-pre-emptive basis in any rolling three-year period.

Compliance reporting

In respect of the financial year 2015, Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in September 2014 ("the Code").

In respect of the year ended 31 December 2015, Bodycote has complied with the provisions of the Code with the exception of provision E1.1. As in previous years, the Board has taken the view that generally it is the responsibility of the Group Chief Executive and the Group Finance Director to manage relationships with institutional investors. The Chairman also meets institutional investors to discuss overall strategy, governance and any concerns that shareholders may have. Only where these more usual channels of communication have failed would the Board expect the Senior Independent Non-Executive Director (SID) or other non-executive directors to become involved, notwithstanding that the Code specifies attendance of the (SID) at meetings with major shareholders. The SID has contacted major shareholders and offered to facilitate meetings with them should they have any concerns they wish to discuss. Regular feedback from the Group's advisers on investor meetings and results presentations is circulated to all directors. During the year the Chairman met with shareholders to discuss governance matters.

Apart from this distinct area, Bodycote was in compliance with the provisions of the Code throughout 2015.

Operation of the Code

Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board report on remuneration presented on pages 48 to 73, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

Leadership

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

The Board met on eight occasions during 2015, including a specific meeting to review and update the Group's long-term strategy. The Board of Directors comprises six members, of whom four are non-executive directors and two are executive directors, led by the Group's part-time Non-Executive Chairman, A.M. Thomson, who also chairs the Nomination Committee. The Group Chief Executive is S.C. Harris and the Senior Independent Non-Executive Director is R. Rajagopal. I.B. Duncan chairs the Audit Committee and E. Lindqvist is Chairman of the Remuneration Committee. Brief biographical details of all directors are given on pages 36 and 37. During the year the Board visited a number of UK and overseas facilities, including sites in the UK and Poland. Such events involved meetings with local management and the unit workforce to better understand technical and operational performance in countries where Bodycote has a significant presence.

Corporate governance statement continued

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

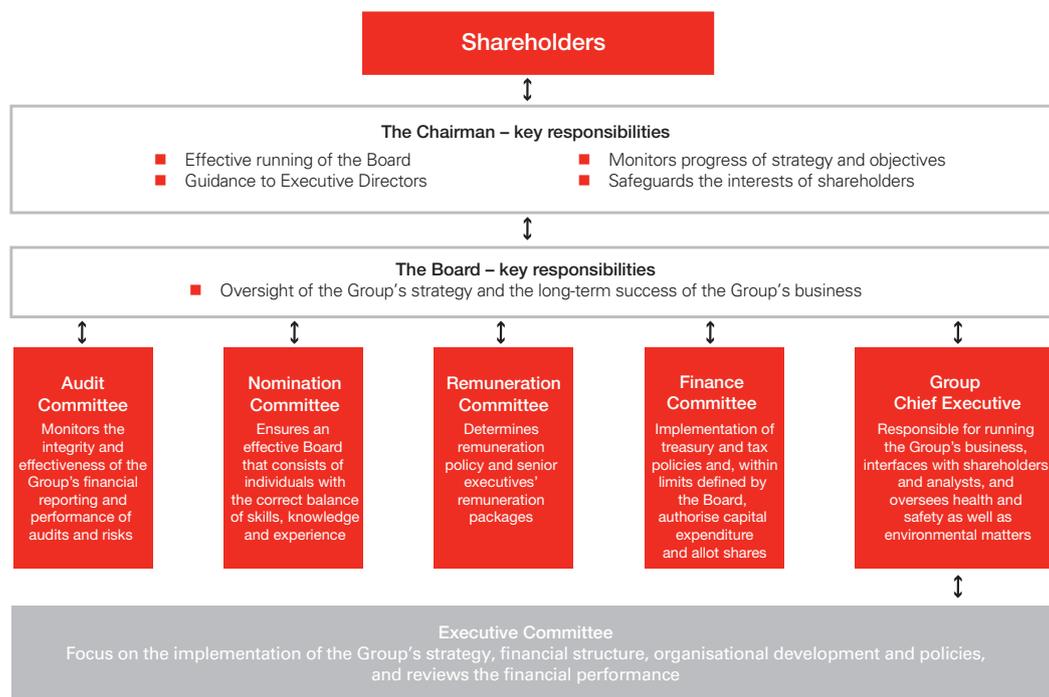
- Strategy;
- Approval of financial statements and circulars;
- Capital projects, acquisitions and disposals;
- Annual budgets;
- Directors' appointments, service agreements, remuneration and succession planning;
- Policies for financial statements, treasury, safety, health and environment, donations;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

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

Where required, a director may seek independent professional advice, the cost of which is reimbursed by the Group. All directors have access to the Group Company Secretary and they may also address specific issues with the SID. In accordance with the Articles of Association, all newly appointed directors must submit themselves for re-election. All directors stand for yearly re-election. Non-executive directors, including the Chairman, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the directors' responsibilities is set out on page 74. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee. All non-executive directors serve on each Board Committees.

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

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



Independence of non-executive directors

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

Commitment

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

Director	Full Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A.M. Thomson	8	8	–	–	7	7	5	5
S.C. Harris	8	8	–	–	–	–	5	5
R. Rajagopal	8	7	4	4	7	7	5	5
E. Lindqvist	8	8	4	4	7	7	5	5
D.F. Landless	8	8	–	–	–	–	–	–
I.B. Duncan	8	8	4	4	7	7	5	5
J.A. Biles	3	3	2	2	2	2	3	3

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

Corporate governance statement continued

Proposals for re-election

The Board decided, in line with the Code, that all directors will retire annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly A.M. Thomson, S.C. Harris, D.F. Landless, E. Lindqvist and I.B. Duncan will stand for re-election at the 2016 AGM. R. Rajagopal will retire as a Non-Executive Director at the May 2016 AGM. The Board recommends to shareholders that they re-elect (or elect) all the directors. In accordance with the recommendations of the Code, Board members will serve for a period of six years which may be extended in certain circumstances.

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

Internal control and risk management

The Board is responsible for the Group's system of internal controls and risk management policies and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement.

The Board believes that the Group maintains an effective system of internal controls which is in accordance with the FRC's guidance entitled 'Internal Control: Revised Guidance for Directors' (formerly referred to as the Turnbull Report guidance) and, in the view of the Board, no significant deficiencies have been identified in the system. The system was in operation throughout 2015 and continues to operate up to the date of the approval of this report. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on reviewing reports from management and from internal audit to consider whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities. In September 2014 the FRC issued guidance on 'Risk Management, Internal Control and Related Financial and Business Reporting' which replaces the 'Internal Control: Revised Guidance for Directors' currently being applied by the Group. The new guidance was applied in the Group's 2015 accounting period.

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

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

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

During 2015, in compliance with provision C.2.1 of the Code, management performed a specific assessment for the purpose of this Annual Report. Management's assessment, which has been reviewed by the Audit Committee and the Board, included a review of the Group's key strategic and operational risks, which is summarised from work performed by the Group Head of Risk and the Group's Risk Committee to identify risks (by means of workshops, interviews, investigations and by reviewing departmental or divisional risk registers). Further information regarding the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 24 to 26. No new significant risks were identified as part of this process, and the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified as part of the reviews.

Investor relations

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

By order of the Board:

U.S. Ball

Group Company Secretary
25 February 2016

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